

February 13, 2014

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2014-15 State Budget***.

The ***Preliminary Review*** outlines and provides background for Governor Brown's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Crafting the state budget is perhaps the Legislature's greatest responsibility. Writing this year's budget will involve no less than making monumental decisions on the future of state government's role in educating our children, rebuilding our transportation infrastructure, protecting our unique environment and addressing the needs of our lowest income, senior and disabled residents.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

We hope that you find the ***Preliminary Review*** useful in understanding and discussing the Budget. If you have any questions or need additional information, please do not hesitate to contact me or the Assembly Budget Committee staff.

Sincerely,

Nancy Skinner, Chair

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OVERVIEW

California's budget is an articulation of the State's priorities through the intended use of its resources. Our state government is small, as a percentage of our overall economy, but it plays an omnipresent role in the lives of Californians. The priorities reflected in our budget impacts each of our residents. For some, the decisions of Sacramento are felt trivially—such as the nuisance of a traffic delay. But for others it is profound, as programs considered in this process can change their overall life-expectancy, their access to education, and life changing opportunities.

In recent years the revenue crisis caused by the Great Recession, an annual series of emergencies, and other challenges distracted from a long term approach to setting budget priorities. Even before the Great Recession, California's budget process was dominated by a structural dysfunction that focused the process and debate towards a one-time action to a single fiscal year's budget.

The Great Recession forced the State to achieve work towards a more stable, long-term approach to funding. After a half-decade of sacrifices offered, opportunities denied, and risks taken, the State budget is finally in a position to consider a thoughtful, multi-year look forward at California's future.

The 2014-15 budget process provides a meaningful opportunity to begin setting long-term priorities for the State. The Governor's proposal has provided some good examples of such thinking. The Assembly has the opportunity to build upon the Governor's framework to set the future policy course of the State through the budget process.

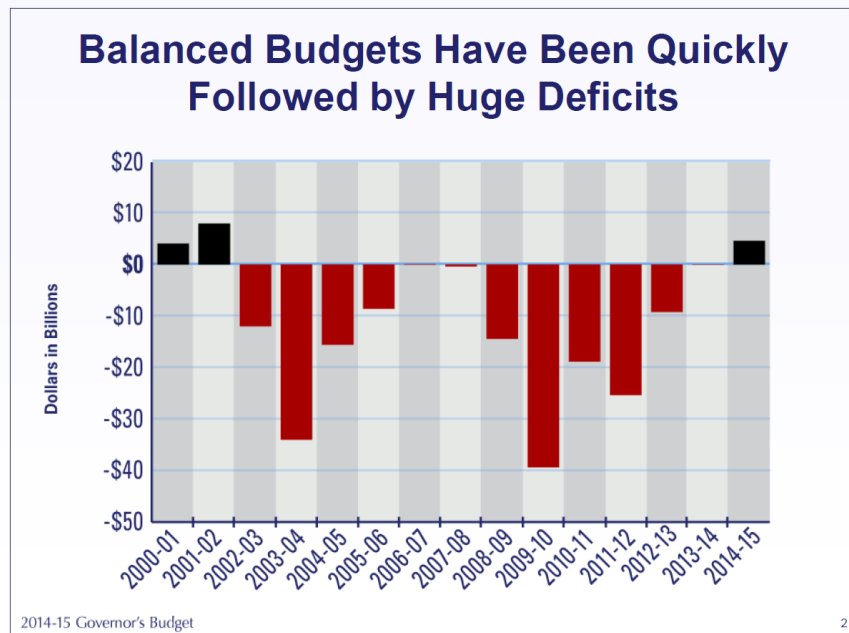
Governor's Plan: Pay Down Debt, Build Reserves

The Governor proposes a \$154.9 billion budget (\$106.8 billion General Fund) for 2014-15 with a total reserve of over \$2.5 billion, including \$1.6 billion that is transferred to the Budget Stabilization Account. Overall General Fund spending increases by \$8.3 billion, or 8.5 percent, with Proposition 98 spending accounting for the biggest share of the growth in expenditures.

The Governor proposes to reduce the State liabilities he lists in his "Wall of Debt" by directing over \$11 billion in 2014-15 to pay off the Economic Recovery Bonds a year early and retiring all \$6.1 billion in Prop 98 deferrals in 2014-15.

Respect, But Do Not Fear, the Past

Almost every analysis or discussion of the budget begins with a look backwards at California's nearly two decades of structural deficits and perennial budget problems. When people argued that California was "broken", our State's budget problem was usually one of the first pieces of evidence they cited. Much of the discussion regarding the future path of for California is rooted in not repeating the mistakes of the past. For example the Governor's presentation on the budget included the following graph to illustrate this history:



The Governor has made budget stability a major focus of his 2014-15 fiscal plan, with the embrace of the Assembly Democrat's robust Rainy Day fund proposal, a \$1.6 billion transfer to the Budget Stabilization Account, and an aggressive approach to reduce the level of State liabilities.

The Governor's long term fiscal projections suggest that this approach would be continued for years afterwards. As the Assembly now has the opportunity to think long term, Members have the chance to consider some key questions about how our state fiscal plan should work. How much is needed for a Rainy Day? What level of liabilities is acceptable for California to carry on its balance sheet? Are their investments in program restoration, infrastructure, or other economic stimulus that could strengthen the States future economic position?

The discussion about stabilizing the budget must be broader than a list that contains the "Wall of Debt", pension liabilities, and bond debts. These are problems that cannot be solved in a single year. There are other unaddressed public policy issues that also pose a risk to the State financial future. These include the growing levels of income inequity, the educational achievement gap, and a lack of adequate and well maintained infrastructure. Not addressing

these areas has the potential to drive decades of State spending. The 2014-15 budget offers the Assembly a chance to consider the State's future path with this broader perspective, rather than be limited narrowly to an accounting for the mistakes of the past.

Consider Opportunity Cost

The State's budget liabilities have been framed colorfully. Governor Brown created the "Wall of Debt" concept to describe liabilities that had an association with budgetary solutions enacted in recent years. Unfunded pension liabilities have been called a "time bomb". In the Five-Year Infrastructure Plan, the Administration points out that only one other large State has a higher debt-per-capita rate, thus arguing that California cannot incur further debt to fund infrastructure.

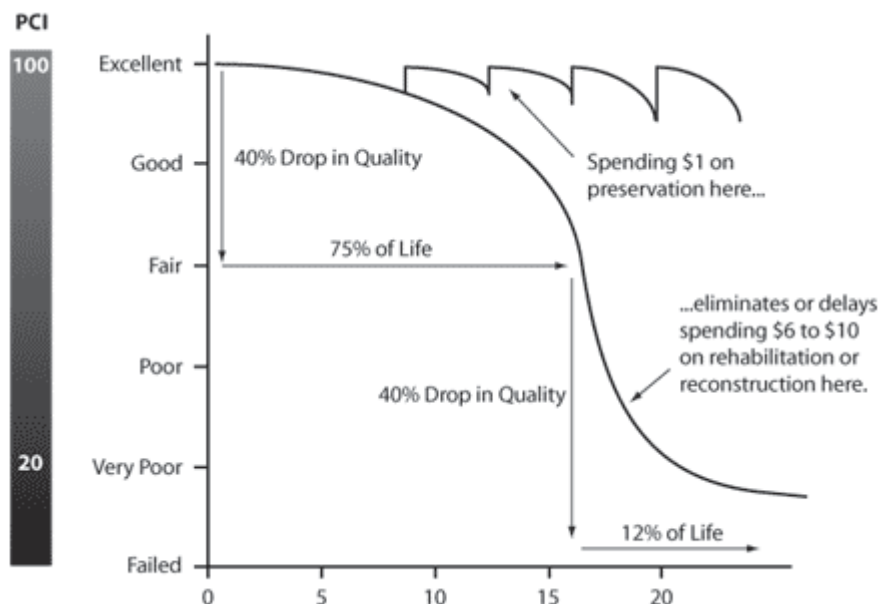
With such framing, it seems obvious that only an aggressive plan to pay down debts and build reserve could be labeled "prudent".

Clearly reducing debt is a priority, but not all debts are the same. Some of these debts have low, in some cases no, interest costs associated with them, and the State potentially forgoes a better return of investment from other expenditures by being too aggressive in minimizing debts.

For example, the most expensive debt cost associated with the "Wall of Debt" is the Economic Recovery Bonds. These bonds have a range of interest costs, ranging from 3.5 to 5 percent per year. Research by Nobel Prize Winning Economist Professor James Heckman, suggests the State could see a return of 7 to 10 percent on investments in early childhood education—twice the return of paying off the Economic Recovery Bonds. When is it prudent to focus resources on low interest debts instead of opportunities for future growth?

Another example is the 20,000 CSU-eligible students who have not been admitted each year because of enrollment limitations. The Pew Center estimates that a four year college degree yields \$550,000 in additional lifetime income. Thus by not addressing CSU's enrollment growth, the State may forgo up to \$11 billion in future personal income each year this policy stays in place.

In addition, the Governor's Five Year Infrastructure identifies \$64.6 billion in deferred infrastructure maintenance, but only provides \$815 million in funding to begin to address the backlog. However, deferred maintenance costs can increase exponentially, as assets do not deteriorate in a linear fashion. For example, the Federal Highway Administration has prepared the following chart regarding the Pavement Life Cycle:



This chart illustrates that a \$1 investment at the 12th year of a 20 year stretch of payment can prevent \$6 to \$10 in rehabilitation or reconstruction in the future.

In order for the budget to really be “prudent”, the budget process must consider these trade-offs and other opportunity costs. With over 1.4 million unemployed Californians currently looking for work, the State will have opportunities to get significant returns on investments it makes.

Governor's Proposal Offers Visions of the Future

In the 2014-15 budget, the Governor has offered ambitious future plans in some selected areas of public policy. In particular the Governor’s plan includes:

- \$4.5 billion in additional spending for Proposition 98 funding directed to the Local Control Funding Formula, a 10.9 percent increase
- \$284 million for a five percent increase of funding for UC and CSU
- \$344 million for additional Community College funding, as part of Proposition 98
- \$850 million of Cap and Trade expenditures
- \$105 million to support Courts
- \$81 million for prisoner rehabilitation
- \$500 million of lease-revenue bonds for local jail construction
- \$815 million for deferred maintenance infrastructure investment

Since the Governor has put forward these areas of spending for consideration, the Members of the Assembly can join this discussion as the Members shape the priorities for the coming year. The Assembly must also consider what other priorities should be discussed in this process.

Other Program Areas Merit Consideration

For the most part, the Governor’s budget includes flat, or in some cases declining, funding for areas not emphasized in the section above. The Assembly has the opportunity to begin the discussion regarding the priorities in these policy areas.

The December version of the Assembly Blueprint for the Responsible Budget began the discussion of identifying priorities to add to the list put forward by the Governor for discussion. The 2014-15 budget process will refine, change, evolve, and improve this initial blueprint to identify the priorities of the Assembly in preparation of a budget vote by June 15th of this year.

Contrasting the Governor's Budget with this December document leads to some important questions for formulating the Assembly's budget strategy:

- Should the budget include provisions that create jobs and strengthen the economy, such as additional infrastructure spending, tax policy, or program restorations?
- Should the Assembly allow the scheduled reduction to Medi-Cal rates to occur or should action be taken to examine these rates in the 2014-15 budget?
- At what level should courts be funded and how much flexibility should the State have in it
- How do we ensure that our investment in rehabilitation programs provide the best and most effective expenditure to reduce correction recidivism?
- Is the Governor's \$815 million infrastructure proposal sufficient or should the budget include additional investments or tools to address infrastructure issues?
- Given the dramatic impact that recent budget reductions have made on the income and opportunities of low income Californians, should the 2014-15 budget consider additional programs and resources for the State's lowest income families and children?
- Should early childhood education for children aged 0-4 be a budget priority this year? If so, what is the best programmatic approach?

These questions are not an exhaustive list, but rather the beginning of a conversation. As the budget process evolves, this list will continue to be refined and improved by the Assembly.

What happens in 2016?

The 2014-15 budget may just be a starting point for a future discussion regarding long-term priorities. If we follow the Governor's 2014-15 budget blueprint exactly, in 2016 California will have a reserve of \$6 billion, a structural surplus of close to \$1 billion, and over 90 percent of the "Wall of Debt" retired. What happens next? The 2014-15 budget may not answer the question, but it may be the right time to begin that discussion.



RAINY DAY FUND

The Governor's Budget proposes a rainy day alternative to ACA 4 (Rainy-Day fund measure scheduled for November ballot) that aims to reduce budgetary volatility by basing the size of a required deposit on capital gains related-revenues.

The Governor's Rainy Day fund proposes the following:

- Increase the size of the rainy day fund to 10 percent of estimated General Fund (GF) revenues. Currently ACA 4 proposes the reserve to be 5 percent.
- Require certain projected capital gains income taxes exceeding 6.5 percent of annual GF revenues to be deposited to the rainy day fund.
- Create a Proposition 98 reserve within the rainy-day fund. The Prop. 98 portion would be determined by calculating the part of the increase in Prop. 98 minimum guarantee caused by capital gains revenues over the 6.5 percent threshold. This would smooth school spending to prevent damage caused by cuts and would also make no changes to the Prop. 98 guarantee.
- Limit the amount that can be withdrawn in the first year of a revenue downturn to half of the rainy day fund. For the Prop. 98 reserve, the Governor's proposal would allow the full amount to be withdrawn, if needed, to provide specified growth and COLA adjustments to schools and community colleges.
- Allow the payments to the Wall of Debt or other long term liabilities to be made in lieu of a deposit to the rainy-day fund.

Solving Budget Volatility: Tax Reform vs Rainy Day Fund

The volatility of General Fund revenues remains a challenge to California's budget. There are two schools of thought on how to mitigate the volatility: 1) revenue neutral tax reform that flattens revenues; and 2) Rainy Day Fund that captures the spikes in revenues.

Volatility is Budget Risk

During the spike in revenues in the late 1990s, what was thought to be ongoing robust revenues were allocated to permanent tax cuts and new spending commitments, such as backfilling revenues to local governments lost through the reduction of the Vehicle License Fee. When the "dot com" bust hit, the budget was devastated. As the budget struggled to work its way back, some revenue sources were cut and then the Great Recession hit and revenues once again went bust.

The key factor in the boom and bust cycles have been taxes paid on capital gains: during the boom times the revenues come in strong, but then go away just as fast during the down turns. During the past 10 years, Personal Income Tax revenues from capital gains, as a share of

overall General Fund revenues, have bounced from as high as 10.7 percent to as low as 3.5 percent.

Tax Reform

Many observers have suggested “revenue neutral tax reform” that flatten the revenue system would provide a more stable revenue structure and provide the same level of revenues over time, but without the peaks and dips of the current system.

At first blush, this seems appealing. However, this Assembly should consider what this would mean.

First, revenue neutral tax reform would mean increasing middle class taxes, while giving the wealthy a break. Whether the reform would call for changes within the income tax system, or would call for shifting taxes away from income and to the sales tax or property tax, the outcome is the same: the rich pay less and the middle class pays more.

Second, stabilizing revenues from year to year means increasing the tax burden during times of economic downturns, while reducing the tax burden during (good years) when taxes can be paid with less economic impact.

Therefore, while revenue neutral tax reform that flattens revenues would reduce volatility, it makes little economic sense to shift taxes from those that have the ability to pay to the struggling middle class, or to shift the tax burden from the years when incomes are soaring to years of struggle.

This is not to say that targeted tax reform should not be pursued. For example, closing out of date or ineffective tax loopholes should always be considered, and modernizing the sales tax system to better reflect the economy by lowering rates and including certain services also should be considered. However, these types of reforms would not be paid for by giving the wealthy a break on their tax bill.

Rainy Day Fund

The Rainy Day Fund idea first proposed by the Assembly Democrats and now embraced by the Governor, addresses the challenges of revenue volatility from a different angle. Instead of flattening out revenues, the Rainy Day Fund flattens out spending.

Under the Rainy Day Fund proposal, revenues from capital gains spike over 6.5 percent of the overall General Fund are taken off the table, put into the Rainy Day Fund, cannot be used for new ongoing commitments. Then, when there is an economic downturn, rather than having to rely on program cuts and tax increases, much of the gap in a typical downturn could be covered from the Rainy Day Funds.

In essence, the Rainy Day Fund marries the solution to the problem: today, the volatility of revenues gives us the spikes and dips that cause the budget problems; the Rainy Day Fund captures the spikes to fill in the dips in order to maintain a stable budget.

Those that argue for tax reform do so under the belief that it will lead to a more stable budget. The Rainy Day Fund will also bring about budget stability, but without the negative consequences of shifting the tax burden from the good years to the bad years and from the wealthy to the middle class.



K - 1 2 E D U C A T I O N

Since the Great Recession, California has made major strides in returning K-12 education funding to pre-recession levels. The recession caused devastating cuts to California schools, which were already underfunded relative to other states. Thankfully, Proposition 30 was passed by voters in 2012, preventing further "trigger" reductions and allowing school funding to begin to stabilize back to their pre-recession levels.

Last year's budget also made significant changes to the school finance system and began investing in new curriculum standards. The 2013-14 Budget Act fundamentally changed the way the State allocates funding to schools through the "Local Control Funding Formula." This new funding formula provides more resources for the neediest students, in an effort to close the achievement gap and improve educational outcomes. At the same time, the State began investing in the newly adopted Common Core State Standards, which require students think more critically to better prepare them for college and the workforce. The 2013-14 budget provided \$1.25 billion in one-time funding to allow for teachers and students to implement the new standards.

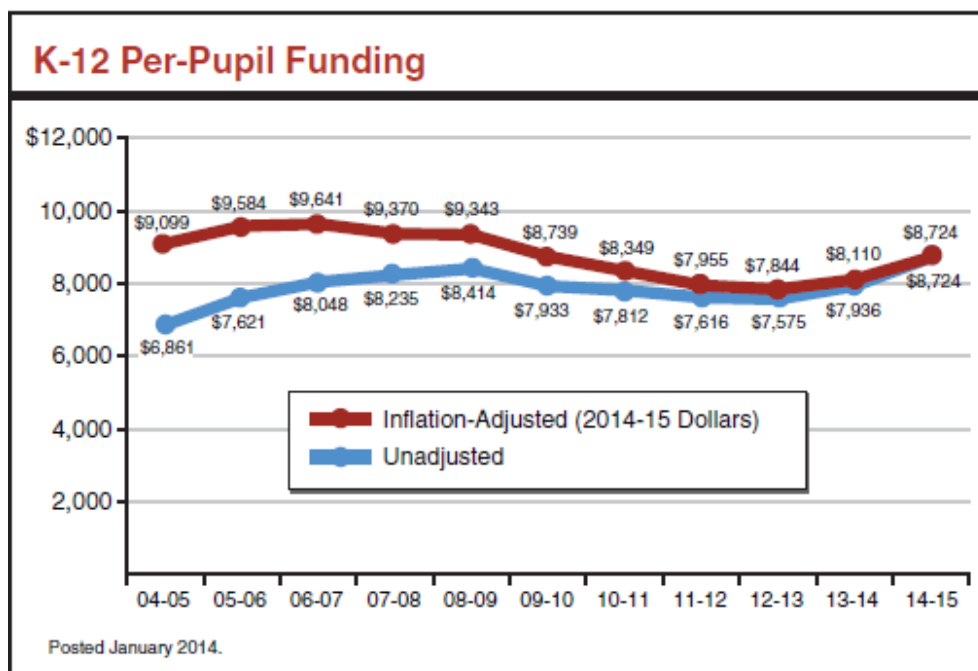
The Governor's 2014-15 Budget includes new funding for education, driven by Proposition 98. The Governor proposes using this funding on a combination of paying down debt owed to schools and programmatic spending.

Major Policy Issues the Assembly may Wish to Consider:

- The State has made significant progress in recent years in retiring deferred payments to our schools. The Governor's Budget proposes to eliminate all remaining K-14 deferrals by the end of 2014-15. Just a year ago, the Governor proposed paying off all deferrals over three years. The Assembly may wish to consider paying down the remaining deferrals over two or three years. This would be a responsible timeline, while allowing for additional programmatic funding.
- The Governor's Budget proposes to set in statute a specific percentage of annual Proposition 98 funding to be automatically dedicated to the LCFF each year. Should the Legislature limit its discretion over budgetary decisions? Given that this is the first year of implementation of the LCFF, is it too soon to automate spending decisions?
- The Governor's Budget proposes to eliminate two more categorical programs – Specialized Secondary Programs and Agricultural Vocational Education Incentive Grants. Should the Assembly consider consolidating additional categorical programs into the Local Control Funding Formula? Are there other state priorities that should be funded outside the Local Control Funding Formula?
- The Governor's Budget does not propose additional funding for schools to implement the Common Core State Standards. The Legislature may wish to consider further investment for this purpose.

Per Pupil Funding

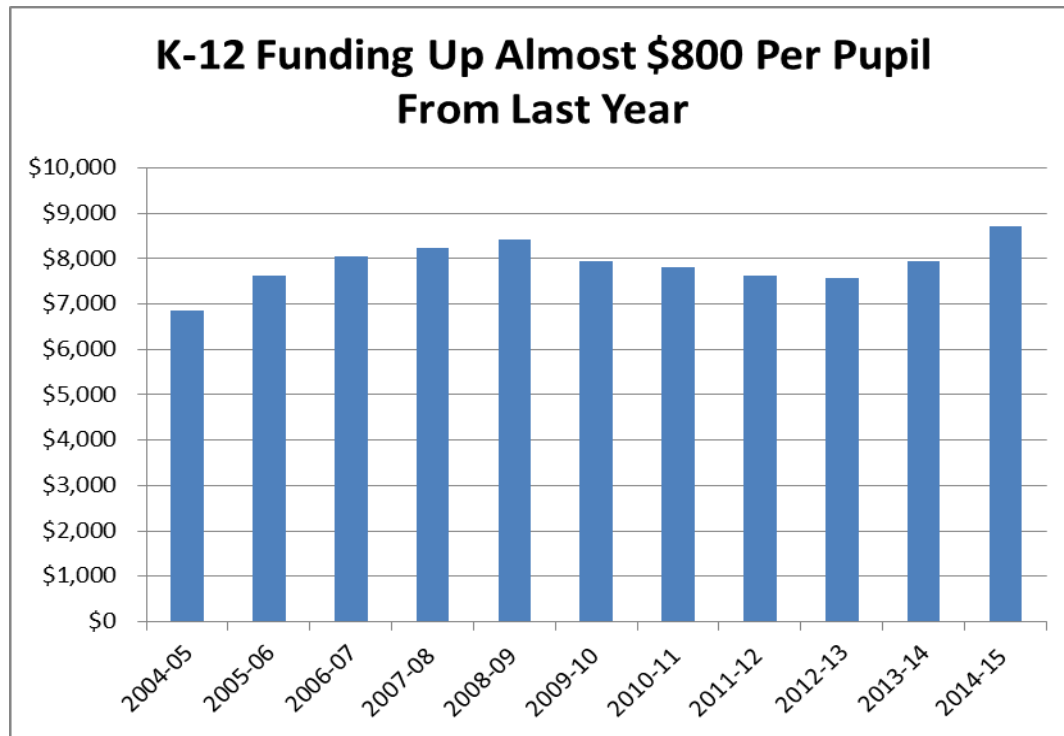
Due to the passage of Proposition 30 and the improving economy, K-12 education funding is on the rise. As shown in the chart below, per pupil funding has improved considerably since the recession, but has not fully recovered to pre-recession levels when adjusted for inflation and is still well below other U.S. states.



Source: Legislative Analyst's Office

Per pupil spending still has a ways to go to reach the national average. In 2011-12, California was ranked 49th in per pupil spending according to Education Week's annual Quality Counts report. Since the most recent data comparison completed by the U.S. Census Bureau was from 2011-12, and data for 2012-13 will not be released until late May, it is difficult to know where California ranks currently.

As the charts in this section show, per pupil funding has certainly improved since 2011-12. The 2013-14 budget included a 5.5 percent increase in per pupil funding, or \$415 per student. Under the Governor's 2014-15 proposal, per pupil spending would increase from \$7,936 in 2013-14 to \$8,724 in 2014-15. This is an increase of \$788 per student, or 10 percent, from 2013-14.



Source: Legislative Analyst's Office

Proposition 98

Due to Proposition 98, approximately 40 percent of the state budget is dedicated to K-14 education. Because education funding makes up the largest portion of the budget, schools were hit particularly hard during the recent recession. However, now that revenues are improving, the majority of the increased revenue will go toward K-14 education, in part, due to the constitutional requirements created through Proposition 98.

Background on Proposition 98. Proposition 98, approved by voters and enacted in 1988, amended California's Constitution and established an annual minimum funding level for K-14 education (K-12 schools and community colleges). The intent of Proposition 98 was to create a stable funding source for schools, which grows with the economy and student attendance. Two years later, Proposition 111 was also enacted, which made significant changes to Proposition 98 to allow for lower K-14 funding when General Fund revenues are weak and significant growth when revenues improve. Propositions 98 and 111 created three formulas, or "tests," to calculate the minimum funding level for schools, also called the "minimum guarantee."

- Test 1 – Share of General Fund. Provides the same percentage of General Fund revenues appropriated to schools and community colleges in 1986-87, or approximately 40 percent.
- Test 2 – Growth in Per Capita Personal Income. Provides the prior year funding level adjusted for growth in the economy (as measured by per capita personal income) and K-12 attendance. Applies in years when state General Fund growth is relatively healthy and the formula yields more than under Test 1.

- Test 3 – Growth in General Fund Revenues. Adjusts prior-year funding for changes in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income.

The Constitution provides two comparisons for determining which test to use in calculating the minimum guarantee. First, compare Test 2 and Test 3 and select the test with the lower amount of funding. Compare that test to Test 1 and select the test with the higher amount of funding to determine your minimum guarantee. The State has the option of funding the designated minimum guarantee, funding above the minimum guarantee or "suspending" the guarantee to provide less funding than the formula requires. Suspending the Proposition 98 guarantee requires a two-thirds vote by the Legislature. The minimum guarantee for the 2013-14 fiscal year was determined by "Test 3." It is expected that "Test 1" will apply for the 2014-15 fiscal year.

Propositions 98 and 111 also created the "maintenance factor," which is designed to help the State balance the budget in tough economic times. Maintenance factor is created in Test 3 years or if the minimum guarantee is suspended. Essentially, in times of slow economic growth, when the State cannot provide the Test 2 level of funding, the State keeps track of the funding commitment and eventually restores the Proposition 98 guarantee to what it would have been had education funding grown with the economy. Proposition 98 also uses a formula to dictate how much maintenance factor is paid back in strong fiscal years.

Because 2014-15 is expected to be in a "Test 1" year, meaning the state is experiencing strong economic growth, the state will also be required to make a higher maintenance factor payment. Therefore, if revenues come in higher than expected, it is likely that the entire surplus will be required to be spent on education. The maintenance factor at the end of 2014-15 is projected to be \$4.5 billion.

Overall Proposition 98 Funding

Proposition 98 funding declined rapidly during the recession, slipping to a total of \$47.2 billion in 2011-12. Since then, Proposition 98 funding has been on a positive trajectory. The Governor's Budget estimates a Proposition 98 minimum guarantee of \$61.6 billion for the 2014-15 Fiscal Year, an 8 percent increase from 2013-14. The chart below illustrates the proposed increase in Proposition 98 funding, driven by growth in General fund revenue and increased property tax revenue.

Proposition 98 Funding *(Dollars in Millions)*

	2012– 13 Revised	2013– 14 Revised	2014–15 Proposed	Change From 2013–14	
				Amount	Percent
Preschool	\$481	\$507	\$509	\$2	—
K–12 Education					
General Fund	\$37,740	\$36,361	\$40,079	\$3,718	10%
Local property tax revenue	13,895	13,633	14,171	537	4
Subtotals	(\$51,63)	(\$49,99)	(\$54,250)	(\$4,255)	(9%)
California Community Colleges					
General Fund	\$3,908	\$4,001	\$4,396	\$395	10%
Local property tax revenue	2,241	2,232	2,326	94	4
Subtotals	(\$6,149)	(\$6,233)	(\$6,723)	(\$489)	(8%)
Other Agencies	\$78	\$78	\$77	–\$1	–1%
Totals	\$58,32	\$56,83	\$61,559	\$4,746	8%
General Fund	\$42,207	\$40,948	\$45,062	\$4,115	10%
Local property tax revenue	16,135	15,866	16,497	631	4

Source: Legislative Analyst's Office

Major Proposition 98 Spending Proposals

The Governor's Budget proposes to spend the increase in Proposition 98 funding on a combination of debt repayment and programmatic spending. Specifically, the Governor proposes to provide \$2.5 billion to pay down all remaining K-14 deferrals and an additional \$4.5 billion for school districts and charter schools and \$26 million for County Offices of Education for the Local Control Funding Formula. The Governor also includes \$46 million for new computer based assessments aligned to the Common Core State Standards and a 0.86 percent cost-of-living adjustment for those categorical programs outside of the Local Control Funding formula.

The chart below outlines the Governor's proposed spending plan for 2014-15.

Increases in 2014–15 Proposition 98 Spending (*Dollars in Millions*)

Accounting Adjustments	
Remove prior-year one-time actions	–\$2,423
Fund QEIA program outside of Proposition 98	–361
Adjust energy efficiency funds	–101
Subtotal	–\$2,885
Policy Changes	
Fund increase in school district LCFF	\$4,472
Pay down remaining deferrals (one-time)	2,474
Augment CCC Student Success and Support Program	200
Augment CCC maintenance and instructional equipment (one-time)	175
Fund 3 percent CCC enrollment growth	155
Provide 0.86 percent COLA to select K–14 programs	82
Increase funding for K–12 pupil testing	46
Fund increase in COE LCFF	26
Other changes	1
Subtotal	\$7,631
Total Changes	\$4,746

QEIA = Quality Education Investment Act; LCFF = Local Control Funding Formula; CCC = California Community Colleges; COLA = cost-of-living adjustment; and COE = county office of education.

Source: Legislative Analyst's Office

Local Control Funding Formula

The 2013-14 budget fundamentally changed the way California allocates funding to schools. AB 97 (Committee on Budget), Chapter 47, Statutes of 2013, and subsequent legislation created the Local Control Funding Formula (LCFF), which consolidated most of the state's categorical programs with the discretionary revenue limit funding to create a new student formula phased in over eight years.

The Governor's Budget makes a significant investment in the LCFF by providing \$4.5 billion for school districts and charter schools and \$25.9 million for County Offices of Education to further implement the new formula. The Governor also proposes changes to the LCFF, including consolidating additional categorical programs into the formula and automatically dedicating a proportion of Proposition 98 for the LCFF. These proposals are discussed later in this report.

Background on the LCFF. The LCFF was the result of extensive research and policy work that was proposed by Governor Brown in the 2012-13 budget with his "Weighted Student Formula" and again in 2013-14 with the "Local Control Funding Formula." The Governor advocated strongly for these proposals, arguing that the prior system was overly complex and did not provide sufficient "local control" for districts to address the particular needs of their students. The LCFF is largely based on the Governor's belief in subsidiarity, the principle that decisions should be made at the smallest level of government or those closest to the people.

In addition to subsidiarity, one of the main principles behind the LCFF is that English learners and low-income students require more attention and resources in the classroom than students who do not have these same challenges. By providing more services (and in turn, funding) to these student populations, it is widely believed that this will help to close the achievement gap and help all students perform better.

The LCFF combined most categorical programs with revenue limit funding to create a more simplified formula that is made up of a base grant, supplemental and concentration grants and "add-ons." The cost of the LCFF is much more than the previous formula, therefore it is expected to take up to eight years to fully implement. Below describes in more detail how the formula works.

- Base Grant. Under the LCFF, school districts receive the majority of their funding through a "base grant" based on average daily attendance (ADA) and adjusted for four grade span needs. Generally the formula includes grade span adjustments, recognizing the higher cost of education for higher grade levels.

Additionally, the formula includes a 10.4 percent increase in the base rate for grades K-3 in order to cover the costs associated with class size reduction (CSR) in these grades. The student to teacher ratio established by the LCFF in grades K-3 is 24 to one, which will be phased-in over eight years. The high school grade span adjustment increases the base grant for grades 9-12 by 2.6 percent, taking into account costs associated with career technical education (CTE). While the high school add on is meant to reflect the higher costs of CTE programs, there is no requirement for districts to use the funding to do so. (The maintenance of effort requirement on the state's former CTE Categorical Program, Regional Occupational Centers, is set to expire in 2014-15)

- Supplemental Grant. The LCFF provides a "supplemental grant" for English learners, low-income and foster youth students. Under the formula, these student groups generate an additional 20 percent of the student's base rate. Students can only qualify for one supplemental grant, meaning that if a student is both an English learner and low-income, they are only counted once. Also, all foster youth are also considered low-income; therefore it is unnecessary to discuss them as a separate group.

Students are classified as an English learner (EL) if a parent or guardian reports through a home survey that the student's primary language is a language other than English and if their results on the California English Language Development Test (CELDT) show that they are not English proficient. Once classified as EL, the student is reassessed every year using the CELDT until they are considered Fluent English Proficient (FEP). There are no requirements around how long a student can be counted as an EL.

For LCFF purposes, a student is considered low-income (LI) if they meet the qualification for free or reduced-price meals (FRPM). Students are determined FRPM eligible through an application process sent to the student's home. If a household's income is below 185 percent of the federal poverty line (\$43,568 for a family of four), the student is eligible for FRPM. Additionally, students are directly certified as FRPM eligible if they participate in other social service programs, such as the California Work Opportunity and Responsibility to Kids (CalWORKs) program. FRPM eligibility is assessed annually and there is no limit on how long a student can be considered LI.

- **Concentration Grant.** The LCFF also provides a "concentration grant" for districts whose EL and LI student population exceeds 55 percent. These districts will receive an additional 50 percent of the adjusted base grant for each EL and LI student above the 55 percent threshold. At full implementation, this will result in a significant increase in funding for those districts with high concentrations of EL and LI students.
- **Add-Ons.** Two former categorical programs are treated as "add-ons" to the LCFF. These include the Home-to-School Transportation (HTST) program and the Targeted Instructional Improvement Block Grant (TIIG). Districts that received categorical funding for these programs in 2012-13 will continue to receive the same amount of funding through this add-on. Districts that did not receive this categorical funding previously will not receive the add-on. Those districts that receive HTST funding are required to spend the same amount in 2014-15 as they did in 2013-14 for transportation services. However, after 2014-15, there are no spending restrictions for the HTST add-on. There are currently no restrictions for the TIIG add-on; therefore, districts that receive this funding can use it for any educational purpose.

The chart below shows the LCFF grade span base rates, as specified in statute.

Overview of Local Control Funding Formula^a

Formula Component	Rates/Rules
Target base rates (per ADA) ^b	<ul style="list-style-type: none"> ▪ K-3: \$6,845 ▪ 4-6: \$6,947 ▪ 7-8: \$7,154 ▪ 9-12: \$8,289
Base rate adjustments	<ul style="list-style-type: none"> ▪ K-3: 10.4 percent of base rate. ▪ 9-12: 2.6 percent of base rate.
Supplemental funding for certain student subgroups (per EL/LI student and foster youth)	20 percent of adjusted base rate.
Concentration funding	Each EL/LI student above 55 percent of enrollment generates an additional 50 percent of adjusted base rate.
Add-ons	Targeted Instructional Improvement Block Grant, Home-to-School Transportation, Economic Recovery Target.

^a Applies to school districts and charter schools.

^b Reflects target rates as specified in statute. Does not include 1.57 percent cost-of-living adjustment provided in 2013-14.

ADA = average daily attendance; EL = English learner; and LI = low-income (defined as a student receiving a free or reduced-price meal).

Source: Legislative Analyst's Office

- Economic Recovery Target. Some districts will receive an Economic Recovery Target (ERT) add-on. This add-on is targeted at those districts that would have fared better under the prior funding formula, had the revenue limit deficit factor and categorical funding been fully restored. The ERT add-on is calculated by the difference between the amount a district would have received under the old system and the amount a district would receive based on full implementation of the LCFF. However, districts that are in the 90th percentile or above in per-pupil spending under the old system are not eligible to receive the ERT.

Approximately 130 districts are eligible to receive the ERT add-on. The total cost of the ERT add-on is \$24 million in ongoing funding, which will be paid to eligible districts over the eight year implementation timeline (\$3 million in 2013-14, \$6 million in 2014-15 and so on). The ERT amount was calculated in 2013-14 and will not be recalculated each year.

- Cost of Living Adjustment. Each year the target base rate will be updated for cost of living adjustments (COLAs), creating a moving target. Until districts reach their target funding level, estimated to be in 2020-21, COLA will be included in their growth funding. This will vary district by district. For example, a district that is close to their LCFF target will receive a smaller amount for COLA (as well as total funding) than a district that is further away from their target. Once the target funding level is reached, districts will then receive the full COLA each year (assuming that the State has sufficient funds to do so).

Accountability and Intervention. In addition to the new LCFF, the 2013-14 budget also established a new system for school accountability and intervention. Under the new system, districts and charter schools are required to complete a Local Control and Accountability Plan (LCAP). The LCAP must include a district's annual goals in each of the eight state priority areas, which include: student achievement, student engagement, school climate, implementation of the Common Core State Standards, course access, parental involvement and other student outcomes. The plans must include both district wide goals and goals for specific subgroups. Districts are required to consult with stakeholders on their plans and hold at least two public hearings before adopting or updating their LCAP. Districts must adopt an LCAP by July 1st 2014, which is to be updated every year and adopted every three years.

The State Board of Education (SBE) is charged with adopting the template for districts to use in adopting their LCAP, as well as the regulations for how districts can use their supplemental and concentration funds. The SBE adopted an emergency LCAP template on January 16th, 2014. The SBE also adopted emergency regulations which allow for districts that have over 55 percent EL or LI students to use the supplemental and concentration funding on a districtwide basis as long as they identify the services being provided and how those services are serving those EL and LI students that generated the funding. For those districts that have less than 55 percent EL and LI students, the regulations allow them to also use the extra funds for districtwide purposes, but they must also describe how the districtwide services are the most effective use of the funds to meet their goals for their EL and LI students. The regulations also provide a formula for districts to calculate what proportion of their LCFF funds should be used on EL and LI students. The SBE is expected to adopt permanent regulations at their March 2014 board meeting.

In addition to the LCAP, the new funding formula also created a new system of school district support and intervention. The California Collaborative for Educational Excellence (CCEE) was created in order to provide assistance to low-performing school districts. Under the new system, if a school district that does not meet performance expectations in the eight state priority areas, they will be subject to intervention by their County Office of Education or the CCEE. Districts that are continuously not meeting performance standards will be subject to intervention by the SBE and State Superintendent of Public Instruction (SPI).

The 2013-14 budget provided \$10 million to establish a new system of support and intervention through the CCEE. This work has yet to be done. Because the number of districts that will need assistance is unknown and the role of the CCEE is still unclear, the cost of the new support and intervention system going forward has yet to be determined. The Governor's Budget does not include ongoing funding for the CCEE, but the Administration will be considering ongoing funding as the system is further developed.

Major Provisions

Substantial investment in LCFF implementation

Because the LCFF provides significant new funding for all students, as well as for EL and LI students without taking funding away from other students, the cost of the LCFF is higher than the previous funding formula. Had the State fully implemented the LCFF in 2013-14, it would have cost approximately \$18 billion above the 2012-13 funding level. Given the cost, the LCFF is expected to be phased in over eight years. New funding for LCFF will be allocated to districts based on their funding "gap," which is the difference between their prior year funding level and their target LCFF funding level. Each district will see the same percentage of their gap closed, but the dollar amount will vary for each district.

The 2013-14 budget provided \$2.1 billion toward implementing the LCFF, representing approximately 12 percent of the funding gap. The cost to fully implement the LCFF in 2014-15 would be approximately \$15.5 billion.

The Governor's Budget provides an additional \$4.5 billion in Proposition 98 General Fund toward implementing the LCFF for school districts and charter schools. This will bring schools approximately 28 percent closer toward their LCFF target, and is 10.9 percent above the 2013-14 spending level. This is a significant investment in the LCFF. As a result, districts with a larger gap – likely those with higher concentrations of EL and LI students – will receive a substantial amount of new funding in 2014-15. Also included in the \$4.5 billion investment in LCFF, is \$6 million toward the Economic Recovery Target for those districts that would have fared better under the old funding formula. Although the Governor proposes a substantial investment in the LCFF, the Administration still anticipates full implementation to be reached in 2020-21.

County Offices of Education under LCFF. The 2013-14 budget also implemented a new LCFF for County Offices of Education (COE) that is allocated in two parts. The first part provides funding for COEs to provide support and services to local educational agencies (LEAs). The second part provides funding to COEs for alternative education services directly to students that have been expelled, incarcerated, or on probation. Similar to the LCFF for school districts, each COE has a target funding level and all new funding is used to close their gap. The additional cost to fully implement the COE formula in 2013-14 was estimated to be \$50 million. The 2013-14 budget provided \$32 million toward for LCFF implementation for COEs, equating to

almost two-thirds of the funding needed to reach their target. Because it is far less expensive to fully fund the LCFF for COEs, they will likely reach their target funding level much sooner than school districts and charter schools.

The Governor's Budget dedicates \$25.9 million Proposition 98 General Fund for County Offices of Education (COE) for LCFF. The administration estimates that this additional funding will allow COEs to reach full implementation of the LCFF in 2014-15.

Automatic Formula for LCFF Funding

Under current law, the prior year LCFF amounts are continuously appropriated, meaning that even without an approved state budget, school districts will continue to receive the same amount that they received in the prior year. This is similar to the way that revenue limits worked under the previous funding formula. Having a continuous appropriation was especially important during the years when California was perpetually late in passing a budget (prior to the passage of Proposition 25 in 2010).

The Governor's Budget proposes to set in statute a specific percentage of annual Proposition 98 funding to be automatically dedicated to the LCFF each year. The Administration has not yet determined what this percentage will be. Currently, the LCFF funding makes up approximately 75 percent of the total Proposition 98 funding.

Although dedicating the majority of Proposition 98 funding for the LCFF has merit, it may be too soon to establish a set percentage in statute. Given that this is the first year of implementation of the LCFF, and the accountability and intervention systems are still being worked out, it is too soon to know if local districts will make wise spending decisions and improve outcomes, or if the State will ultimately have to intervene to provide stricter accountability. This proposal could tie the hands of future Legislatures from being able to intervene and dedicate funding for purposes outside of the LCFF. For example, the Legislature would be limited in funding a new State priority or reestablishing former categorical programs. Additionally, if the Legislature wanted to make a significant investment in common core implementation through the Common Core Block Grant, it could be restricted under this statutory requirement.

The Legislative Analyst's office has raised concerns with this proposal due to the fact that it would restrict the Legislature's discretion to appropriate funding and make key budget decisions. Given this loss of authority, the LAO recommends the Legislature reject this proposal.

Eliminates Additional Categorical Programs

Approximately two-thirds of all categorical programs under the previous funding system were eliminated, and their funding was consolidated into the LCFF. However, 13 categorical programs were left intact for various reasons. Some were preserved in order to comply with federal law, while others remain because the Legislature deemed them a state priority. The chart on the next page shows how the various categorical programs were treated under the new LCFF.

Treatment of Categorical Programs Under LCFF

Retained Programs

Adults in Correctional Facilities	Foster Youth Services
After School Education and Safety	Mandates Block Grant
Agricultural Vocational Education	Partnership Academies
American Indian Education Centers and Early Childhood Education Program	Quality Education Improvement Act
Assessments	Special Education
Child Nutrition	Specialized Secondary Programs
	State Preschool

Eliminated Programs

Advanced Placement Fee Waiver	Instructional Materials Block Grant
Alternative Credentialing	International Baccalaureate Diploma Program
California High School Exit Exam Tutoring	National Board Certification Incentives
California School Age Families	Oral Health Assessments
Categorical Programs for New Schools	Physical Education Block Grant
Certificated Staff Mentoring	Principal Training
Charter School Block Grant	Professional Development Block Grant
Civic Education	Professional Development for Math and English
Community-Based English Tutoring	School and Library Improvement Block Grant
Community Day School (extra hours)	School Safety
Deferred Maintenance	School Safety Competitive Grant
Economic Impact Aid	Staff Development
Educational Technology	Student Councils
Gifted and Talented Education	Summer School Programs
Grade 7–12 Counseling	Teacher Credentialing Block Grant
High School Class Size Reduction	Teacher Dismissal

Source: Legislative Analyst's Office

The Governor's Budget proposes to eliminate two more categorical programs – Specialized Secondary Programs (\$4.8 million) and Agricultural Vocational Education Incentive Grants (\$4.1 million).

- Specialized Secondary Programs (SSP) were created to encourage LEAs to develop and pilot programs that prepare high school students for college and careers in specialized fields, such as the arts, healthcare and technology. The majority of SSP funding is used to award competitive grants for high schools to use for start-up costs in instituting specialized programs. The SSP categorical also includes ongoing funding for two high schools that have partnered with their nearby California State University (CSU) in offering specialized programs. These high schools include an arts high school in the Los Angeles Unified School District and a science and math high school in the Long Beach Unified School District.

- Agricultural Vocational Education Incentive Grants provide ongoing grant funding to high schools with approved agricultural programs. The grant funding can be used for non-salaried purposes, such as agricultural supplies and equipment, as well as attending conferences. More than 200 schools receive grants annually and all are required to meet a match requirement.

Under the Governor's proposal, school districts that received this categorical funding in 2013-14 would continue to receive funding, however, those funds would count towards their LCFF targets beginning in 2014-15 and the use of the funds would become entirely discretionary. It is unclear why these two programs are being proposed for elimination after being considered a high state priority just a year ago.

Other issues for the Assembly to consider:

- Should the Assembly consider reinstating other categorical programs that remain a high state priority?

Regional Occupational Centers and Programs. Regional Occupational Centers and Programs (ROCPs) are regionally focused Career Technical Education (CTE) programs that offer vocational training in a variety of disciplines. ROCPs primarily serve high school students and can be operated through county offices of education, large districts, or a consortium of districts through a Joint Powers Authority (JPA). The 2013-14 budget folded ROCP funding into the LCFF, but required entities that received funding for ROCPs in 2012-13 to continue to spend the same amount on their ROCPs in 2013-14 and 2014-15. After 2014-15 school districts will not be required to continue to fund ROCPs. And although districts will receive a CTE grade span add on for high school students, there is no requirement for districts to use this funding on CTE programs.

There are currently 74 ROCPs in California, many of which have been proven to be highly effective in preparing students for a career and giving them valuable hands on experience. The future for these programs is unknown. Presumably some districts will continue to fund ROCPs because they realize the value of the program. However, without a dedicated funding source, these programs will be highly unstable and susceptible to budget cuts or elimination in the event of another economic downturn. Given that CTE is a high state priority, should it be funded separately? Why are Partnership Academies funded outside the LCFF, but not ROCPs?

Eliminates all remaining K-14 deferrals

Since 2001, deferrals have become a common budgeting tactic in tough economic times. By delaying Proposition 98 payments owed to schools from one budget year to the next, the State is able to achieve one-time savings without cutting programmatic spending. Large Proposition 98 deferrals became a common mechanism for balancing the State budget, especially when the recession hit. By the end of 2011, a total of \$10.4 billion in Proposition 98 payments were being paid late, approximately 21 percent of the total Proposition 98 support. Many school districts were no longer able to simply dip into their reserves to cover the late payment, resulting in districts turning to borrowing from private lenders, County Offices of Education (COE), or their County Treasurer. Districts are responsible for covering all interest or other transaction costs on such loans.

The 2012-13 budget began the process of retiring K-14 deferral payments by providing a total of \$2.2 billion (\$2.1 billion for K-12 and \$160 million for community colleges) toward deferral buy down. The 2013-14 budget included an additional \$2 billion in K-14 deferral payments (including spending adjustments for 2012-13). The total remaining deferral debt stands at \$6.2 billion.

The Governor's Budget proposes to fully pay all outstanding K-14 deferred payments by the end of 2014-15. The Governor proposes to use all of the increased Proposition 98 revenue in 2012-13 and 2013-14 to pay down deferrals. He also provides \$2.4 billion (\$2.2 billion for K-12 and \$236 million for community colleges) for this purpose in 2014-15.

The State has taken many positive steps toward eliminating its dependence on deferrals in balancing the budget and has demonstrated its commitment to schools in doing away with this practice. Paying down deferrals will help schools with their cash flow needs and free up programmatic spending in future years. The Governor's plan to pay down all remaining K-14 deferrals is a departure from his recommendation from last year to pay off all deferrals over three years. The Assembly could consider an alternative schedule for paying down deferrals, such as paying them off over two or three years. Stretching out these payments would allow for additional programmatic funding to reach the classroom in 2014-15.

Continued investment in the Common Core State Standards

The Common Core State Standards (CCSS) are nationally developed standards for English Language Arts and math that were adopted by the State Board in 2010. The CCSS are designed to reflect the real world knowledge needed for young people to succeed in college and careers, such as student collaboration, fluency in technology, critical thinking, and communication skills. The 2013-14 budget provided \$1.25 billion in one time funding to schools for implementation of the Common Core State Standards (CCSS). This one-time funding will help schools transition to the new standards and can be used for professional development, instructional materials and technology.

The State Board also joined the Smarter Balanced Assessment Consortium (SBAC) in 2011. SBAC is a multistate consortium that is developing computer adaptive assessments in English Language Arts and math aligned to the CCSS, which will be fully operational by the 2014-15 school year. The SBAC program is designed to provide cumulative assessment results at the end of each school year in order to meet statewide assessment needs, as well as formative and interim assessment tools that will be made available to local school districts. These additional assessments can be customized to provide feedback to teachers and students on an individual students' academic progress throughout the year.

AB 484 (Bonilla), Chapter 489, Statutes of 2013, replaced the prior testing system, the Standardized Testing and Reporting (STAR) program, with the California Measurement of Academic Performance and Progress (CalMAPP) program. As part of the CalMAPP system, the bill implemented the new SBAC assessments aligned to the CCSS. Students will begin taking an abbreviated "field test," or practice test, in English language arts and math this spring and the full test in the 2014-15 school year.

The Governor's 2014-15 Budget includes \$46.5 million in ongoing Proposition 98 General Fund to fund the new student assessment system aligned to the CCSS established by AB 484 (Bonilla), Chapter 489, Statutes of 2013. The increased cost of the new assessment system is primarily due to the fact that the SBAC system includes additional tools for teachers in assessing how students are doing throughout the year.

The Governor's Budget does not include additional funding for schools to implement the CCSS. The Assembly may wish to consider further investment for this purpose.

School Facilities

School districts rely on state and local General Obligation (G.O.) bonds to raise money to build and remodel school buildings and purchase equipment. Districts can also generate funds by levying developer fees and forming facility districts.

Since 1998, voters have approved \$35 billion in statewide G.O. bonds for school facilities in California. California's statewide school building program, the School Facilities Grant Program, is supported by statewide bond measures. There is currently no bond authority remaining in the core school facilities new construction and modernization programs.

The Governor's Budget summary proposes to examine the future of school facilities funding, including "what role, if any, the stat should play in the future of school facilities funding." The Governor highlights a number of problems with the current system for funding school facility needs. He proposes creating a system that is easy to understand and provides school districts with local control and fiscal incentives for addressing facility needs.

The Governor's Budget invests one-time funding for school facilities. His proposal includes transferring \$211 million of the remaining School Facility Program bond authority from the specialized programs to the core new construction (\$105.5 million) and modernization (\$105.5 million) programs to be used for already approved construction of new classrooms and modernization of existing classrooms.

The Governor also proposes to provide \$188.1 million in one-time Proposition 98 General Fund to the Emergency Repair Program, established through the Williams v. California settlement. The Williams v. California lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, including "inadequate, unsafe, and unhealthful facilities." The 2004 settlement included increased accountability measures, extra financial support, and other help for low-performing schools. The state agreed to provide \$800 million for critical repair of facilities in future years for the state's lowest-performing schools. These low-performing schools were defined as those that were in the bottom three deciles of the 2003 Base Academic Performance Index (API) rankings. Thus far, the state has only contributed a total of \$338 million for the Emergency Repair Program, and has not provided any new funding over the last five years. The Governor's Budget is a step in the right direction in meeting the state's obligation under the Williams settlement.

Proposition 39

The California Clean Energy Jobs Act (Proposition 39), passed by voters in 2012, required most multistate business to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. This measure established a new state fund, the Clean Energy Job Creation Fund, which is supported by half of the new revenue raised by the mandatory single sales factor for multistate businesses. The initiative directs monies deposited in this fund to be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings.

The 2013-14 budget appropriated a total of \$467 million of the Clean Energy Job Creation Fund to Proposition 98 related programs, restricting the funds to be used for public K-12 and community college facilities. The appropriation specified \$428 million for a new grant program

for schools and community colleges to use on energy efficiency projects, \$28 million for a revolving loan program for schools and community colleges for energy projects, \$8 million for workforce training programs (specifically, the California Conservation Corps and the California Workforce Investment Board), and \$3.1 million for administrative support within the California Energy Commission (CEC).

The Governor's Budget continues allocating the Fund to Proposition 98 programs with a total of \$363 million for energy efficiency efforts, including \$316 million to K-12 schools and \$39 million to community colleges, \$5 million to the Conservation Corps for technical assistance and \$3 million to the Workforce Investment Board for job training. The Governor's Budget provides no additional funding from the Clean Energy Job Creation Fund for revolving loans under the Energy Conservation Assistance Act, though the Administration does recognize that this program will continue to be considered for future funding.

The Governor projects a \$101 million reduction in funding for Proposition 39 energy projects due to lower projected tax revenues than assumed in the 2013-14 budget. These revenue projections are based on the Franchise Tax Board's estimates.

Independent Study Program

California schools are funded on the basis of average daily attendance (ADA), based on the amount of time a student spends in the classroom under the immediate supervision of a certificated employee. Local Educational Agencies (LEAs) can provide online education to students through various avenues, one of which being the independent study program. The part-time and full-time independent study programs allow for LEAs to provide non-classroom based instruction, or online courses, while still generating full ADA. Students participating in the independent study program are required to provide a work plan and teachers are required to assign time values to each assignment in order to ensure that the course is equivalent to similar classroom based courses.

According to the Governor's Budget summary, the Administration proposes statutory changes to streamline and expand instructional opportunities available through the independent study process. The Administration argues that non-classroom based instruction will help fill educational gaps by stabilizing or increasing the attendance of students who may have otherwise dropped out or transferred to a private school to accelerate their educational progress. The Administration also argues that the current independent study program requirements are over burdensome and may deter schools from offering online courses.

The Governor proposed a similar idea last year to allow LEAs to offer technology based instruction through a streamlined independent study process. This proposal eliminated teacher to pupil ratios, explicitly allowed charter schools to provide independent study, and allowed for local LEAs to determine how students participating in independent study were showing "satisfactory educational outcomes."

Specific statutory language was not available at the time this report was published. However, according to the Governor's Budget summary, this proposal only includes high school independent study courses and intends to maintain classroom-based equivalent pupil to teacher ratios, unless collectively bargained otherwise. Further analysis of budget implications around this proposal will be evaluated during the budget process.

Other Key Provisions: K-12 Education

- The Governor's Budget provides a 0.86 percent cost-of-living adjustment for categorical programs outside of the LCFF. These programs include: Special Education, Child Nutrition, Foster Youth, Adults in Correctional Facilities, American Indian Education Center, and American Indian Early Childhood Education programs.
- The Governor proposes to add three mandates to the Mandate Block Grant without providing an increase in block grant funding. These mandates include: Uniform Complaint Procedures, Public Contracts, and Charter Schools IV.

DEPARTMENT OF EDUCATION

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction (SPI) and the State Board of Education (SBE). The CDE is responsible for enforcing education laws and regulations, which guide the education of more than 6.3 million students in 10,296 schools within 1,043 districts and 58 county offices of education.

State Superintendent of Public instruction Tom Torlakson is charged with overseeing CDE's state operations. Superintendent Torlakson was elected to office in 2010 and he is afforded two four-year terms. The Superintendent and the CDE are responsible for providing technical assistance to local school districts and working with the educational community to improve academic performance.

The State Board of Education (SBE) is the governing and policy-making body of the CDE. The SBE makes K-12 policy decisions in the areas of standards, instructional materials, assessment, and accountability. The SBE is tasked with adopting regulations in order to implement legislation and has the authority to grant waivers of the Education Code. The SBE has 11 members, all appointed by the Governor, including one student representative.

CDE State Operations. CDE's administration, or state operations, is funded with a combination of non-Proposition 98 General Fund and federal funds. As shown in the chart on the following page, much of CDE's state operations are funded through federal funds.

CDE State Operations Fund Sources (dollars in thousands)

Fund Source	2011-12 Actuals	2012-13 Actuals	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund CDE Headquarters	\$38,490	\$39,567	\$47,359	\$47,328	-\$31	(0%)
Federal Funds	132,296	131,709	170,672	158,066	(12,606)	(7)
Fee Revenue	6,190	6,149	7,298	7,292	(6)	(0)
Bond Funds	2,291	2,282	2,786	2,789	3	(0)
Other Funds	10,788	10,790	22,187	22,330	143	(1)
Total Expenditures	\$190,055	\$190,497	\$250,302	\$237,805	-\$12,497	-4.99%
Percentage of FF to Total Expenditures	69.61%	69.14%	68.19%	66.47%		-1.72%
Positions	2341.8	1356.2	1554.9	1564.1	9	0.59%

*This table does not include the State Special School appropriations. Source: California Department of Education

The recently adopted LCFF simplified the school finance system and provided locals with more discretion over spending decisions. Given the new formula, how will this impact CDE's role in overseeing California's schools? The 2013-14 budget included significant non-Proposition 98 General Fund augmentations for CDE's state operations related to LCFF administration. The budget included 22 positions and \$2.7 million in ongoing non-Proposition 98 General Fund support for CDE to implement the LCFF.

The Legislative Analyst's Office (LAO) is undertaking an analysis of the CDE's state operations. Specifically, the project seeks to: (1) describe historical and current CDE responsibilities, staffing, and funding levels; (2) analyze how well existing responsibilities are aligned with existing staffing and funding levels; (3) examine how changes associated with the newly adopted K-12 funding and accountability systems are likely to affect CDE's operations; and (4) make recommendations to the Legislature for improving how the state supports local educational agencies in California. The project is not designed to be a financial or performance audit of CDE. Instead, the project is intended to be a big-picture fiscal and policy analysis that examines how CDE can fulfill critical state functions in the most cost-effective manner. The LAO is expected to publish this report in March.

State Special Schools. The CDE also administers the State Special Schools, which includes a total of six facilities, including three residential schools and three diagnostic centers. These schools include the California Schools for the Deaf in Fremont and Riverside, the California School for the Blind in Fremont and Diagnostic Centers located in Fremont, Fresno, and Los Angeles. The State Special Schools are funded with a combination of state and federal funds.

The Governor's Budget proposes an increase of \$5 million General Fund for deferred maintenance projects at the State Special Schools.

Other Key Provisions: CDE State Operations

The Governor's Budget requests the following new positions and associated funding.

- Two new positions and \$240,000 for LCFF CALPADS workload.
- Two new positions and \$482,000 to implement the California Measurement of Academic Performance and Progress pursuant to AB 484 (Bonilla), Chapter 489, Statutes of 2013.
- One new position and \$114,000 for the Pupil Fee Complaint Process.
- One new position and \$100,000 to review and analyze charter school petition appeals.
- Shifts three positions and \$501,000 in local assistance funding to CDE's state operations for the federal Migrant Education program.

COMMISSION ON TEACHER CREDENTIALING

The Commission on Teacher Credentialing (CTC) was created in 1970 in order to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC consists of nineteen members, fifteen voting members and four ex-officio, non-voting members. The Governor appoints fourteen voting Commissioners and the State Superintendent of Public Instruction or a designee serves as the fifteenth voting member. The ex-officio members are selected by each of the higher education segments. The Governor appointed Commissioners include six classroom teachers, one school administrator, one school board member, one school counselor or services credential holder, one higher education faculty member from an institution for teacher education, and four public members.

The CTC's mission is to inspire, educate and protect the students of California. The CTC is responsible for overseeing educator preparation for California's public schools. The CTC issues permits and credentials to classroom teachers, student service specialists, school administrators, and child care professionals. The CTC processes approximately 215,000 applications annually. The CTC also performs accreditation reviews of teacher preparation programs, including public and private institutions of higher education and local educational agencies (LEAs) in California. In addition, the CTC is required to review and take action on misconduct cases involving credential holders and applications resulting from criminal charges, reports of misconduct by LEAs and misconduct disclosed on applications.

The CTC also administers three local assistance programs: Alternative Certification, the Paraprofessional Teacher Training Program and Teacher Misassignment Monitoring. These programs are funded with Proposition 98 General Funds and federal reimbursement from the Department of Education. The Alternative Certification and Paraprofessional Teacher Training programs were consolidated into the LCFF. Prior to the LCFF, this program was included in the K-12 categorical flexibility program, allowing districts to use this funding for any educational purpose.

State Operations. The CTC's state operations are fully funded through "special funds." These special funds include the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). The majority of these revenues are generated by credential fees, which funds the Teacher Credentials Fund. A smaller funding source is through educator exam fees, which fund the Test Development and Administration Account.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund, Proposition 98	\$26,191	\$0*	\$0*	\$0	0%
Teacher Credentials Fund	13,806	15,271	15,919	648	4
Test Development and Administration Account, Teacher Credentials Fund	4,069	4,226	4,218	(8)	(0)
Reimbursements	308	308	308	\$0	0
Total Expenditures (All Funds)	\$44,374	\$19,805	\$20,445	\$640	3%
* Funding consolidated into the Local Control Funding Formula					

Other Key Provision: CTC State Operations

- The Governor's Budget proposes an increase of \$650,000 in the Teacher Credentials Fund for educator preparation program reviews.



EARLY CHILDHOOD EDUCATION

Data indicating the importance of early childhood education programs in improving later student outcomes is overwhelming:

- A 2011 review of research found more than 100 studies nationally showing that high-quality preschool significantly improves low-income children's school-readiness and performance;
- In California, low-income English learner students in San Jose Unified School District who attended high-quality preschool with a strong focus on language and literacy development moved from testing on par with their peers at the beginning of preschool to testing on par with 1st graders by kindergarten entry;
- Research conducted by University of Chicago Professor James J. Heckman, a Nobel Laureate in Economics, showed that a half-day investment in public preschool brings \$48,000 in public benefit. Heckman notes that early childhood education's impact on high school graduation can provide major benefits: a 5 percent increase in male high school graduation rates in California is estimated to save \$753 million in incarceration costs.

As highlighted in the Assembly's Blueprint for a Responsible Budget, early childhood education is a smart investment for the State. Expanding access to quality early education will improve academic outcomes for students, increasing success later in life and reducing future costs in other areas of the budget, such as the social safety net and prisons.

The Governor has shown his commitment to providing more resources for disadvantaged students through the Local Control Funding Formula (LCFF) for grades K-12. Given the research on the benefits of early childhood education, should the State consider investing in these same children early on? This section provides issues for the Assembly to consider as it creates the 2014-15 budget for Early Childhood Education, a review of current child care, preschool and transitional kindergarten funding and programs in the state, a summary and analysis of the Governor's child care and preschool proposals, and an overview of current proposals to create a universal transitional kindergarten program in California and boost programs aimed at 0- to 3-year-olds.

Issues to Consider

- The Great Recession dramatically impacted state child care programs, reducing the number of slots for families by more than 100,000. Demand for subsidized child care remains high: nearly 193,000 children are on waiting lists, according to the California Child Care Resource and Referral Network. The administration does not propose increasing the number of child care slots in 2014-15. Should the Assembly include increasing the availability of child care as a top budget priority?

- State reimbursement rates paid to child care providers have a profound impact on wages paid throughout the industry. California currently bases regional rates on a 2005 survey, rates paid to license-exempt providers were reduced in 2011-12, and the statewide standard rate paid to childcare centers and preschool programs has not received a cost-of-living adjustment since 2007. The Assembly should consider the impacts of low rates on the child care industry, and whether an increase in all or some rates is necessary to allow providers to continue and expand operations.
- As the Assembly discusses the potential creation of a universal transitional kindergarten program, questions to consider include how much time it would take to implement, teacher requirements for TK classes, facilities needed for this expansion, whether a mixed delivery model of both public and private providers is possible, and the impacts a TK program would have on programs for 0- to 3-year-olds.

Child Care Background and Governor's Budget

Under current law, the State makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the "stage" of public assistance or transition the family is in.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving **CalWORKs Stage 2** child care services are either receiving a cash public assistance payment (and are deemed "stabilized"), or in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

If a family is receiving **CalWORKs Stage 3** child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, there are long waiting lists for care.

Child care providers are paid through either (1) direct contracts with CDE, or (2) vouchers through the Alternative Payment Program.

- Direct Contractors receive funding from the State at a Standard Reimbursement Rate, which pays for a fixed number of child care “slots.” These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.
- Alternative Payment Programs (APs) act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

The 2014-15 Budget provides about \$2.2 billion in state and federal funds to administer CalWORKS and non-CalWORKS subsidized child care programs. The chart on the following page details all of the funding changes, by program.

The Governor has proposed a status-quo budget related to child care, with no policy changes and only funding adjustments due to a slight decrease in CalWORKS caseloads and a slight increase to the average cost of care. In relation to the 2013 Budget Act, the Governor removes a one-time augmentation of \$10 million for non-CalWORKS child care, which could fund more than 1,100 slots, but maintains a \$25 million augmentation for state preschool.

Additionally, the Assembly should monitor a shortfall in the current year. The Department of Education has reported that costs in CalWORKS Stage 2 and Stage 3 will exceed 2013 Budget Act appropriations by \$9 million and \$15 million respectively, based on November 2013 data. This is occurring, according to the department, because more families are utilizing licensed care instead of license-exempt care, and the cost of licensed care to the state is higher. The Department is proposing to use available federal funds to cover \$20.7 million of this shortfall, but has asked the Department of Finance for \$3.3 million in additional General Fund.

Child Care Budget Summary*(Dollars in Millions)*

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$289	\$406	\$385	-\$22	-5%
Stage 2	419	358	364	6	2
Stage 3	162	183	186	3	2
Subtotals	(\$870)	(\$947)	(\$935)	(\$12)	(-1%)
Non-CalWORKs Child Care					
General Child Care	\$465	\$473 ^a	\$479 ^b	\$6	1%
Alternative Payment	174	177 ^a	179 ^b	2	1
Other child care ^c	28	28 ^a	28 ^b	—	1
Subtotals	(\$666)	(\$678)	(\$687)	(\$9)	(1%)
Support Programs	\$76	\$74	\$73	-\$2	-2%
Totals	\$1,612	\$1,699	\$1,694	-\$5	—
Funding					
State Non-Proposition 98	\$779	\$776	\$783	\$8	1%
General Fund					
Other state funds	14	—	—	—	—
Federal CCDF	549	541 ^a	556 ^b	15	3
Federal TANF	372	383	355	-28	-7
State Preschool (Proposition 98)	\$481	\$507	\$509	\$2	—

^a Differs from administration's estimate due to reflecting the federal sequestration cut and the associated General Fund backfill.

^b Does not include potential federal sequestration reduction, as estimates are still pending.

^c Includes Migrant Child Care program and Handicapped Child Care program.

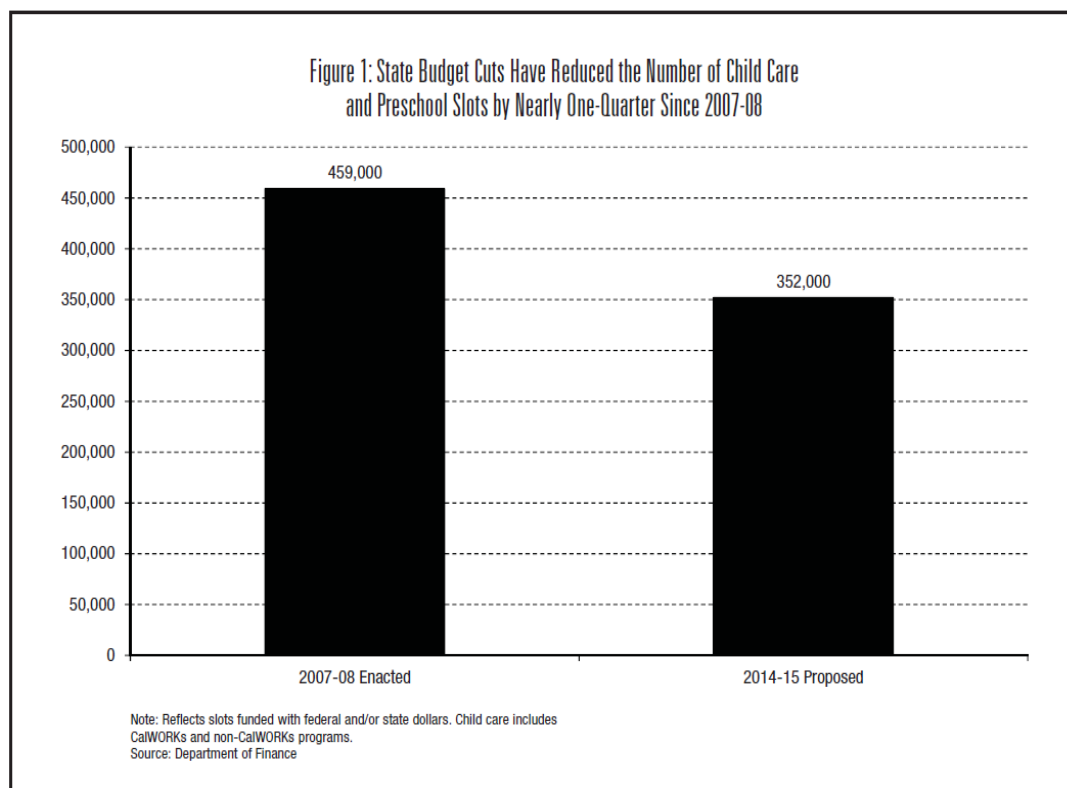
CCDF = Child Care and Development Fund and TANF = Temporary Assistance for Needy Families.

Posted January 2014.

Ongoing Issues in Child Care

The improving economy and growing interest in boosting early education programs allows the Assembly the opportunity to improve state child care programs to better serve children and their parents. Among the issues to consider are:

Since 2007-08, more than 100,000 subsidized child care slots have been lost due to budget reductions and impacts related to CalWORKs policy changes. This reduction has significantly diminished the state programs. Nearly 193,000 children are currently on wait lists for slots, according to information provided by the California Child Care Resource and Referral Network, although that number may be low, as the state has ceased funding a program that tracked waiting lists county by county. See the chart created by the California Budget Project on the following page.



The Legislative Analyst's Office (LAO) projects that in 2014-15 the state will purchase 210,466 subsidized child care slots, for both licensed and license exempt care, and 136,755 state preschool slots. This is a 3 percent decrease in child care slots compared to 2013-14 and about the same number of preschool slots.

As the Assembly considers improvements, it may wish to examine the rates at which it pays providers. Regional Market Rates, which are paid to providers via the voucher-based system, have not been updated since 2006, and are based on a 2005 market survey. The Standard Reimbursement Rate, paid directly by the state to licensed care providers, last received a cost-of-living adjustment in 2007. Data discussed in a joint hearing of Assembly Budget Subcommittees #1 and #2 last year noted that subsidized child care rates are among the lowest wages paid to workers in the world, when considered on a per child basis. Reimbursement rates for one child receiving school-aged care in Los Angeles County amounts to \$2.02 an hour. This issue will have an increasingly important impact on the child care workforce as the California minimum wage increases.

Background on Transitional Kindergarten

SB 1381 (Simitian), Chapter 705, Statutes of 2010, changed the cutoff date for admittance to kindergarten and created the "transitional kindergarten" (TK) program. Specifically, the bill changed the required birthday for admission to kindergarten and first grade to November 1 for the 2012–13 school year, October 1 for the 2013–14 school year, and September 1 for the 2014–15 school year and each school year thereafter. The decision to change the age of admittance to kindergarten, requiring kindergarteners to be five years old before they start school, was made for a number of reasons. Due to increased emphasis on test scores, kindergarten classes now place heavier emphasis on academics. Success in kindergarten is

measured by academic ability, as well as physical, social, and emotional factors. Delaying the entry of four-year-old children would give them time to prepare and mature.

Due to the changes in the kindergarten start date, the bill also allowed for those students who would have previously been enrolled in kindergarten, to instead be placed in a TK class. When fully implemented in 2014-15, four year olds whose birthdays fall between September and December will be eligible for transitional kindergarten. This change did not result in increased cost to the state because these four year olds were being served previously in kindergarten.

In 2012, the Governor proposed in his January Budget to eliminate the TK program. Due to budget constraints at the time, the Administration did not support starting a new program. The Governor's proposal to eliminate TK would have resulted in displacing approximately 120,000 students from public school over three years, with relatively minimal cost savings. The Governor's proposal included a slight increase in State Preschool funding to account for those four year olds no longer eligible for kindergarten. The Legislature rejected this proposal and kept TK intact.

Ideas to Implement Universal TK and Boost Care for Zero Through Three Year-Olds

One approach to investing in quality early childhood education would be to expand transitional kindergarten for all four year olds. At full implementation, only one-quarter of four year olds will be eligible for TK. Shouldn't all four year olds have access to high quality, developmentally appropriate TK?

Research shows that investing in quality early childhood education will provide increased tax revenue and budget savings later on. A University of Chicago Nobel Laureate economist James Heckman found that investment in quality preschool will result in 7 to 10 percent per year return on investment. This return on investment could potentially cover the cost to implement transitional kindergarten for all four year olds.

A proposal unveiled by Early Edge California in December proposes to both implement a universal TK program and improve programs for zero through three year-olds. The proposal would phase in a mixed-delivery (both public and private) transitional kindergarten system over a five-year period, eliminate the current state preschool program, and expand programs for zero through year-olds based on the comprehensive Head Start program. The concept envisions using the \$400 million currently supporting state preschool to provide both wrap-around services for TK students and to expand child care options for zero through three year-olds. Details of the proposal, specifically surrounding the zero through three-year-old program, are still emerging.

Among the issues for the Assembly to consider are:

Cost. The total cost to provide TK for all four year olds would depend on how the program is structured. Under the plan proposed by Early Edge California, which would fund TK at two-thirds of full ADA, the estimated cost to expand TK would be approximately \$1 billion. This would likely be phased in over several years. TK would be funded through average daily attendance (ADA) within the Proposition 98 minimum guarantee. As a result, the Proposition 98 guarantee would likely grow to be a larger percentage of the state budget, potentially impacting the non-Proposition 98 side of the budget. However, due to the fact that school attendance is projected to decline over the next few years, adding more students to public school may not have much of an impact on the minimum guarantee at this time.

One issue to consider would be whether TK students should receive full ADA or a portion of ADA, since TK is typically a part-day program. Currently, TK students receive full ADA funding, equivalent to kindergarten students. Additionally, should TK students be eligible to receive supplemental and concentration grant funding under the new LCFF? This would increase the cost of TK, but would also provide needed resources for English learners and low-income TK students, consistent with the principles of the LCFF.

Impact on Other Programs. Expanding TK would not be possible without coordination and investment in other early childhood education programs. Current State Preschool and General Child Care programs would be significantly impacted if TK were expanded. Would State Preschool continue to serve four year olds, or would this program be reserved only for three year olds? Many child care providers currently serve four year olds, in addition to infants and toddlers. Due to higher staff-to-child ratios for four year olds, child care providers could struggle to make ends meet by only serving infants and toddlers.

In addition to the disruption in services for those providers currently serving four year olds, additional wrap-around services would be needed for part-day TK programs. Would wrap-around services be provided on site or at another location? Having wrap-around services at another location would present difficulties in transportation, potentially impacting whether low-income students would be able to access TK.

Facilities. Many K-12 campuses are currently at full capacity and would not be able to accommodate another grade level. Would the state provide extra funding to build new classrooms? As an alternative, the state could allow for a mixed delivery model, meaning that school districts could contract with existing child care centers to provide TK.

Teacher Requirements. Currently, TK teachers, like all primary grade teachers, are required to have a bachelor's degree and a multi-subject teaching credential. It is estimated that universal TK would create 8,000 new teaching positions and 12,000 associate teaching positions. Will the state have enough teachers to fill this need? What will be the impact on preschool and child care providers?

Other issues to consider:

- What has been the experience of parents, teachers and students in implementing TK thus far?
- Will TK be accessible for working families, low-income families? What are the barriers?
- Should TK classes have smaller class sizes than the 24 to one student to teacher ratio for grades K-3 under the LCFF? What would be the cost?
- Can the State use a mixed delivery model? What are the constitutional implications?
- How will we mitigate the impacts on preschool and child care providers?
- How much time is needed to implement adding another grade to our K-12 education system?



HIGHER EDUCATION

For the second year in a row, California's economic recovery allows the Assembly the opportunity to increase funding for higher education. The Governor's Budget proposes \$13 billion in General Fund support for higher education, including the University of California, the California State University, California Community Colleges, and financial aid. (This includes \$4.8 billion in Proposition 98 General Fund support for community colleges.) The proposed funding would be a 10 percent increase over the 2013-14 Budget.

The Governor states in his budget message that he expects the segments to use increased state funding to "maintain affordability, decrease the time it takes students to complete a degree, increase the number of students who complete programs, and improve the transfer of community college students to four-year colleges and universities." These are all worthy goals. Key issues for the Assembly to consider as it vets the proposals are how to grow enrollment to ensure qualified California students are able to go to college, both through increasing enrollment and providing appropriate financial aid; the best methods for improving the success rates of students in college; and, the role the Legislature should play in setting statewide higher education policy.

The following section includes issues the Assembly can consider as it prepares the 2014-15 budget for higher education, background on the Master Plan of Higher Education and a description of the higher education segments, a review of current issues in higher education, and summary and analysis of the Governor's higher education budget proposals, including a comparison to the Assembly's "Blueprint for a Responsible Budget," which was released in December.

Issues to Consider

- The UC Board of Regents and CSU Board of Trustees adopted budget proposals calling for a much larger increase in state funding in 2014-15 than the Governor is proposing. Instead of a 5 percent increase, both boards are seeking about a 10 percent increase. Both segments state that funding above the 5 percent increase would allow them to grow enrollment and invest in programs to improve student outcomes. Are UC and CSU doing enough to contain cost increases in areas such as pension reform, operational efficiencies and administrative salaries? What is the appropriate state funding level to allow for enrollment growth, efficient per-student costs and improved outcomes?
- Enrollment targets have traditionally been a part of the budget. The Legislature has long held access to college as a key priority, and thus conditioned funding for UC and CSU on serving a specific number of students. The Governor has refused to include enrollment targets in the last three budgets. Absent an enrollment target, how would the administration feel if UC or CSU lowered enrollment despite increased funding? What are long-term enrollment projections? What is the correct balance between policies and funding that increase access to college for California students and improve programs to help those students complete their educational goals?

- The Governor calls on both segments to develop Sustainability Plans that would set enrollment and performance targets based on funding levels suggested by the Department of Finance. Would the Assembly have a role in determining if funding levels and performance targets are appropriate as these plans are developed and released? How should the Assembly use performance metrics as it determines funding levels?
- The Governor provides funding to community colleges to allow for 3 percent enrollment growth, or nearly 42,000 more full-time equivalent students (FTES). Some colleges may not be able to grow that fast, while others could grow even faster. Is that an appropriate statewide enrollment target? How should community college funding be distributed to meet statewide and regional needs for statewide priorities such as workforce development and transfer?
- With increased Proposition 98 revenues, the Assembly has choices to make as it re-invest in community college programs. The Governor proposes significant funding increases for two categorical programs but leaves funding flat for many other programs, including those that support disabled students, CalWORKS recipients and allow part-time faculty to meet with students outside of classroom hours. Which programs should be boosted to improve student experiences and outcomes?
- While the Cal Grant program offers significant support for low-income students, there is room for improvement. Only 23 percent of very low-income students who apply for Cal Grants receive them, the stipend for the lowest-income recipients is worth about one-quarter of what it was worth more than 30 years ago, due to inflation. How can the Assembly improve the Cal Grant program to ensure it supports the most low-income students in the most appropriate ways?

Background

California's higher education system is governed by the *Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The *Master Plan* also delineates different missions for each of the three segments – the University of California, the California State University, and the California Community Colleges.

The **University of California (UC)** provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry and veterinary medicine, and it serves as the State's primary agency for research. According to Master Plan goals, the top 12.5 percent of graduating public high school students are eligible for admission to UC.

The **California State University (CSU)** provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research. According to Master Plan goals, the top 33.3 percent of graduating public high school students are eligible for admission to CSU.

The **California Community Colleges (CCC)** provide academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also engage in promoting regional economic development and conducting research on student learning and retention.

The **California Student Aid Commission (CSAC)** also plays an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing the state's financial aid programs, including Cal Grants and the new Middle Class Scholarship.

Current Issues in Higher Education

Higher education is critical to the state's economy, but data shows troubling trends. Higher education in California is at a critical turning point. After several years of major cuts in state funding, and increasing state and national focus on improving student outcomes, the Legislature has an opportunity to thoughtfully re-invest in higher education. The need for continued state support of California's three segments couldn't be clearer, both for the state's overall economy and for individual and family stability and upward mobility:

- The Public Policy Institute projects that by 2025, 41 percent of jobs in California will require at least a bachelor's degree, but only 35 percent of Californians will have college diplomas. Based on current trends, the state will face a shortfall of 1 million college graduates.
- Californians with a bachelor's degree earn about \$1.3 million more over their careers than those with a high school degree, and Californians with an associate's degree earn twice as much as those without in three years.

There are troubling indicators that the state is falling short in increasing college success. A 2013 report by the Campaign for College Opportunity noted that Latinos – soon to be the majority population in California – lag behind the rest of the state in college completion. About 11 percent of Latinos in California have a college degree, compared to 30 percent of Californians overall. Additionally, U.S. Census Bureau statistics show that adults 45-64 have a higher rate of college degrees than younger adults, ages 25-34, in California. This is truly an alarming trend.

General Fund spending for UC and CSU operations remains below pre-recession levels, and overall state spending on higher education is only average nationally. Even with the Governor's proposal to increase funding for higher education segments over the current year – by 5% for UC and CSU, and by 10 percent for community colleges – General Fund support will not match pre-recession levels for UC and CSU and is flat for community colleges.

Current state funding levels place California 19th in the country in state appropriations for higher education, according to a report from the State higher Executive Officers Association. California averages about \$6,577 per student, which is slightly above the national average of \$5,906, but below states including Texas, Illinois, and North Carolina.

The chart on the following page shows the differences in funding between pre-recession 2007-08 and the 2014-15 budget proposal. Note that dwindling state support has led the segments to increase tuition dramatically. This tuition hike has played a large role in the growth in Cal Grant expenditures, as most Cal Grants cover tuition at UC and CSU.

Segment	Fund (in millions)	2007-08 Actual	2014-15 Proposed	Change Between 07-08 and 14-15
UC	General Fund	\$3,257	\$2,794	(16.6%)
	Tuition and Fees	1,589	2,847	44.2
	Cal Grants	253	810	68.8
	Total UC	5,453	7,012	22.2%
CSU	General Fund	\$2,971	\$2,507	(18.5%)
	Tuition and Fees	1,329	2,275	51.1
	Cal Grants	130	445	70.8
	Total CSU	4,358	5,743	24.1
CCC	Proposition 98 General Fund	\$4,367	\$4,396	0.7%
	Local Property Tax	\$1,971	\$2,326	15.3%
	Fees	\$291	\$448	35.0%
	Total CCC	\$6,798	\$7,463	8.9%

Notes: General Fund spending does not include debt service for UC and CSU or annuitant health care costs for CSU. Total UC spending includes Other UC Core Funds and Lottery funds and indicates UC operational costs, not the total UC budget. Total CSU and Total CCC spending includes Lottery funds.

Budget cuts have hurt access to college and caused campus dysfunction. These cutbacks have had profound impacts on campuses. Beginning in Fall 2008, for example, CSU began turning away students who were in the top third of their graduating high school class – the group of students the Master Plan identifies as qualified to go to CSU. Preliminary numbers indicate that in Fall 2013, CSU turned away 26,430 such students. In addition, community colleges have seen a decrease of 600,000 students – from 2.9 million students to 2.3 million - between 2007-08 and 2012-13. While the 2013 Budget Act appropriated funding to allow colleges to grow enrollment by 1.63 percent, community college enrollment remains significantly diminished.

Students who made it on to campus have encountered tremendous difficulty in taking needed courses. In Fall 2012, community colleges reported that an average of more than 7,500 students per district were on waitlists. These numbers appear to be improving in the 2013-14 school year, but colleges still report nearly 60,000 course sections with waitlists statewide. CSU students also report numerous "bottleneck classes."

At UC, California student enrollment has remained relatively flat, but the UC has increased the number of non-California students, who pay higher tuition. The number of nonresident students grew by 26 percent between 2012-13 and the estimated projections for 2014-15, while resident student enrollment grew by .2 percent. Nonresident students will make up 11 percent of the student body in 2014-15. Given the state subsidy of UC, the Assembly should hold conversations with UC about the appropriate amount of nonresident students at their campuses.

State-funded financial aid programs are robust, but improvements are needed. The Legislature took a major step toward addressing affordability at UC and CSU in the 2013 Budget Act by creating the Middle Class Scholarship. In addition, the state's largest financial aid program, Cal Grants, provides critical aid to low-income students, allowing students to go to college and leave school with low debt levels – only two states have lower student-debt loads than California, in part due to the Cal Grant program. Data indicates how important Cal Grants are to providing the possibility of upward mobility for low-income California students:

- 53% of Cal Grant recipients' parents have a high school degree or less than a high school degree;
- And 65% of new Cal Grant recipients who are considered dependents come from families earning less than \$35,999 per year.

A majority of Cal Grant recipients receive the grant as an entitlement – if they qualify for the award, they receive it. Under the Governor's Budget, Cal Grant spending for 2014-15 is expected to grow by about \$103 million in 2014-15 to a total of \$1.8 billion. Cal Grant funding comes from the General Fund (\$1.2 billion), federal Temporary Assistance for Needy Families funds (\$545 million), and the Student Loan Operating Fund (\$60 million.) The table below indicates the growth in the Cal Grant program during the past three years, both in number of students receiving a Cal Grant and in spending.

	2012-13 Actual	2013-14 Estimated	2014-15 Proposed	% Change from 13-14 to 14-15
# of Students	260,717	285,733	304,923	7%
Cost (in billions)	\$1.5	\$1.7	\$1.8	6%

An important new component of the Cal Grant program is the Dream Act, which allows undocumented students seeking a college education to receive Cal Grants. Projections for 2014-15 indicate that 9,948 Dream Act students will receive Cal Grants, including both new recipients for 2014-15 and renewal recipients who first received Cal Grants in 2013-14, the first year of the program. Dream Act students account for \$48.9 million of Cal Grant spending, or about 3 percent of the total Cal Grant budget.

Experts note that the Cal Grant program needs improvement to continue to allow low-income students to attend and succeed in college. Among the concerns:

- Many low-income California students are left out of the program. According to research done by The Institute for College Access and Success (TICAS), only 23 percent of very low income students who apply for aid receive a Cal Grant, due, among other things, to age restrictions, missed application deadlines, and the inability of the state to re-distribute grants after a student is offered funding but declines to use it.
- For many, the program does not address the true costs of college. TICAS and others note that because Cal Grant is often aimed at covering the cost of tuition, it does very little to help low-income community college students, who typically receive fee waivers from school but no other state help in other expenses, such as books, housing and transportation.
- The Cal Grant stipend for the lowest-income students is inadequate. The Cal Grant B stipend, which is typically awarded to the lowest-income Cal Grant students, is set by statute at \$1,473 annually. Accounting for inflation, the stipend is worth one quarter of what it was worth in 1969-70, when it was first introduced.

The Assembly Blueprint for a Responsible Budget makes suggestions for improving the Cal Grant program which will be discussed later in this section.

Increasing focus on student completion. In recent years, the Legislature, Governor and the segments have begun to focus more on student outcomes. In 2012, SB 1456 (Lowenthal), Chapter 624, Statutes of 2012, was signed by the Governor, creating the Student Success Act of 2012 for community colleges. The act, among other things, required students receiving fee waivers to show academic progress, and reformed a categorical program that now provides counseling, student orientation services, and requires students to develop an educational plan related to academic and career goals. Additionally, the 2013 Budget Act included a requirement for UC and CSU to begin reporting specific performance metrics for their students. The first report is due in March. The performance metrics are:

Performance Metrics for UC and CSU

Metric	Definition
CCC Transfers	1. Number of CCC transfers enrolled
	2. CCC transfers as a percent of undergraduate population
Low-income Students	1. Number of Pell Grant recipients enrolled.
	2. Pell Grant recipients as a percent of total student population
Graduation Rates	1. Four- and six-year graduation rates
	2. Two- and three-year graduation rates for CCC transfers
	<i>Both measures also calculated separately for low-income students</i>
Degree Completions	Number of degrees awarded annually in total and for:
	1. Freshman entrants
	2. Transfers
	3. Graduate students
	4. Low-income students
First-year Students on Track to Degree	Percentage of first-year undergraduates earning enough credits to graduate within four years
Spending per Degree	1. Total core funding divided by total degrees.
	2. Core funding for undergraduate education divided by total undergraduate degrees
Units per Degree	Average course units earned at graduation for:
	1. Freshman entrants
	2. Transfers
Degree Completion in STEM Fields	Number of STEM degrees awarded annually to:
	1. Undergraduate students
	2. Graduate students
	3. Low-income students

Finally, based on a proposal from last year, UC, CSU and the community colleges are using part of their funding growth in 2013-14 (\$10 million for UC and CSU and \$16.9 million for community colleges) to increase the use of technology to help improve student outcomes. The Assembly should continue monitoring progress on these initiatives:

- UC is developing 150 online and hybrid courses for credit over the next three years and developing plans to allow students at one UC campus to enroll in an online class offered at another UC campus.
- CSU is expanding enrollment in existing online classes, replicating successful courses and teaching methods that utilize technology, redesigning courses that have high demand and/or high failure rates and implementing e-advising and other online student planning programs.

- The community colleges plan to spend the majority of its funding on the acquisition of a common Learning Management System, which allows faculty to post syllabi, assignments, course material and instructional content, and allows students to submit assignments, take tests and participate in online discussions.

These recent efforts stem from the dire need for increased numbers of bachelor's degrees and associate's degrees to fuel California's economy. The Assembly must continue to monitor outcome measures as it determines spending. Among specific areas of concern are the low graduation and completion rates at community colleges (about one-third of students complete a degree or transfer) and CSU (about 51% of students graduate within 6 years) and a recent decline in community college transfer applications to the UC. Transfer applications were 5% lower in Fall 2013 than in Fall 2011; the UC is currently working to understand why the drop has occurred.

Broadly, the Governor's 2014-15 Budget proposal provides increased funding for the three segments, while calling on all three segments to work more closely together, increase efficiencies and improve outcomes. But as the LAO notes in its initial review, the proposal does not directly tie funding to any statewide priority other than flat tuition levels. The Assembly must determine the best avenues to re-invest in higher education to both improve access and affordability while also improving outcomes.

UNIVERSITY OF CALIFORNIA (UC)

The UC system includes ten campuses at Berkeley, Davis, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Cruz, and Santa Barbara. Nine general campuses offer undergraduate, graduate, and professional education, with the San Francisco campus devoted exclusively to the health sciences. The University operates five teaching hospitals in the following counties: in Los Angeles, San Francisco, Sacramento, San Diego, and Orange. The University of California draws students from the top 12.5 percent of the state's high school graduates, educating a projected 242,942 full-time equivalent students (FTES) in 2014-15, including undergraduate, graduate, and professional students.

The Governor's Budget proposes total spending of \$26.2 billion (\$3 billion General Fund), an increase of \$331.6 million (1.3 percent) compared to the current year, and 89,790.2 positions, the same as the current year.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,377,339	\$2,844,449	\$2,986,671	\$142,222	5%
Tuition and Fees	3,867,261	4,019,688	3,987,553	(32,135)	(1)
University Funds – Unclassified	12,287,411	12,815,887	13,174,911	359,024	3
Other Funds (14)	\$6,241,271	\$6,174,528	\$6,036,981	(\$137,547)	(2)
Total Expenditures	\$24,773,282	\$25,854,552	\$26,186,116	\$331,564	1%
Positions	89,528.90	89,790.20	89,790.20	0	0

Major Provisions

Continues Multi-Year Funding Plan

The Governor proposes a base budget increase of \$142 million for UC 2014-15. This increase represents the second annual installment in a four-year funding plan proposed by the Governor last year for both UC and CSU. Under this plan, UC, which received a 5 percent base funding increase in the current year, would receive the proposed 5 percent increase in 2014-15, followed by 4 percent increases in each of the subsequent two years.

Even with a 5 percent increase, General Fund support for general UC operations would remain below pre-recession levels. General Fund support was \$3.3 billion in 2007-08, compared to \$2.8 billion proposed for 2014-15. (The chart above indicating \$3 billion in General Fund support includes debt service costs that were not in the main UC appropriation in 2007-08; and is therefore not an accurate comparison between 2007-08 and 2014-15.)

The Governor conditions his proposed annual funding increases for the universities based on their maintaining tuition at current levels. Under his plan, tuition levels, which have not increased since 2011-12, would remain flat through 2016-17. (Tuition at UC grew by 44% between 2007-08 and 2011-12.) The UC Board of Regents, which sets tuition, has indicated it will not seek increases for the 2014-15 school year.

Similar to last year, the Governor does not propose enrollment targets or enrollment growth funding for the universities. The Governor's budget documents show resident enrollment flat in the budget year at UC.

Three-Year Sustainability Plan

The Governor proposes new budget language requiring the UC Board of Regents to adopt three-year sustainability plans by November 30, 2014. A similar plan would be required by the CSU Board of Trustees. Under this proposal, the universities would project expenditures for each year from 2015-16 through 2017-18 and describe changes needed to ensure expenditures do not exceed available resources (based on General Fund and tuition assumptions provided by the Department of Finance). The segments also would project resident and nonresident enrollment for each of the three years and set performance targets for the outcome measures approved in last year's budget. This is a departure from the Governor's original budget proposal for 2013-14, in which he proposed setting performance targets for UC and CSU and tying funding to the achievement of these targets. A specific plan was released by the Department of Finance last spring, but later withdrawn. This new proposal would allow UC and CSU to develop their own performance targets.

Key issues for the Assembly to consider regarding the Governor's UC funding proposal include:

- The UC Board of Regents' adopted budget proposal calls for a much larger increase in state funding: instead of \$142.2 million as the Governor proposes, the Regents call for \$267.1 million, which would be about a 10 percent increase over current year funding. UC argues that the 5% increase would only allow it to cover mandatory cost increases, such as increasing costs for pension benefits, employee health and mandatory faculty salary increases. The Regents proposal would use the additional state funding to, among other

things, increase enrollment by 1% and launch a "Reinvestment in Academic Quality" program, which would lower student-faculty ratios, further increase faculty salaries and increase graduate student support. Is UC doing enough to contain cost increases in areas such as pension reform, operational efficiencies and administrative salaries? The Assembly's Blueprint for a Responsible Budget calls for increasing funding to UC, CSU and community colleges beyond the Governor's proposal to allow for enrollment growth and improving quality. Even the 10 percent increase proposed by the Regents would not return General Fund support for general UC operations to pre-recession levels; it would remain about \$200 million less than comparative 2007-08 General Fund spending on UC.

- Enrollment targets have traditionally been a part of the budget. The Legislature has long held access to college as a key priority, and thus conditioned funding for UC and CSU on serving a specific number of students. The Governor has refused to include enrollment targets in the last three budgets. Absent an enrollment target, how would the administration feel if UC or CSU lowered enrollment despite increased funding? What are UC's long-term enrollment projections? What is the correct balance between policies and funding that increase access to college for California students and improve programs to help those students complete their educational goals?
- It is unclear how the proposed Sustainability Plans would inform budget discussions. Would the Legislature have a role in determining if funding levels and performance targets are appropriate as these plans are developed and released?

CALIFORNIA STATE UNIVERSITY (CSU)

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, a limited number of doctoral degrees are offered jointly by the CSU with the University of California, and with select private universities. The CSU system draws students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, educating a projected 373,568 students in 2014-15.

The Governor's Budget proposes total spending of \$8.3 billion (\$2.7 billion General Fund), an increase of \$401 million (5 percent) compared to the current year, and 43,031.1 positions, the same as the current year.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,063,476	\$2,345,892	\$2,696,153	\$350,261	15%
CSU Trust Fund (Tuition and Fees)	2,706,606	2,669,342	2,720,100	50,758	2
OtherUnclassified Funds	1,247,829	1,015,774	1,015,774	0	0
Other Funds (7)	1,754,618	1,855,618	1,855,617	(1)	0
Total Expenditures	\$7,772,529	\$7,886,626	\$8,287,644	\$401,018	5%
Positions	43,762.6	43,031.1	43,031.1	0	0

Note: The CSU General Fund increase includes folding general obligation debt service payments into the main General Fund appropriation. Thus the General Fund increase in this table shows a large change over 2013-14, when this payment was a separate line item.

Major Provisions

Continues Multi-Year Funding Plan

The Governor proposes a base budget increase of \$142 million for CSU 2014-15. This increase represents the second annual installment in a four-year funding plan proposed by the Governor last year for both UC and CSU. Under this plan, CSU, which received about a 5 percent base funding increase in the current year, would receive the proposed 5 percent increase in 2014-15, followed by 4 percent increases in each of the subsequent two years.

Even with a 5 percent increase, General Fund support for general CSU operations would remain below pre-recession levels. General Fund support was \$3 billion in 2007-08, compared to \$2.5 billion proposed for 2014-15. (The chart above indicating \$2.7 billion in General Fund support includes debt service costs that were not in the main CSU appropriation in 2007-08; and is therefore not an accurate comparison between 2007-08 and 2014-15.)

The Governor conditions his proposed annual funding increases for the universities on their maintaining tuition at current levels. Under his plan, tuition levels, which have not increased since 2011-12, would remain flat through 2016-17. (Tuition at CSU grew by 51% between 2007-08 and 2011-12.) The CSU Board of Trustees, which sets tuition, has indicated it will not seek an increase for the 2014-15 school year.

Similar to last year, the Governor does not propose enrollment targets or enrollment growth funding for the universities. The Governor's budget documents shows enrollment growing by about 2 percent in the budget year at CSU.

Three-Year Sustainability Plan

The Governor proposes new budget language requiring the CSU Board of Trustees to adopt three-year sustainability plans by November 30, 2014. A similar plan would be required by the UC Board of Regents. Under this proposal, the universities would project expenditures for each year from 2015-16 through 2017-18 and describe changes needed to ensure expenditures do not exceed available resources (based on General Fund and tuition assumptions provided by the Department of Finance). The segments also would project resident and nonresident

enrollment for each of the three years and set performance targets for the outcome measures approved in last year's budget. This is a departure from the Governor's original budget proposal for 2013-14, in which he proposed setting performance targets for UC and CSU and tying funding to the achievement of these targets. A specific plan was released by the Department of Finance last spring, but later withdrawn. This new proposal would allow UC and CSU to develop their own performance targets.

New Capital Outlay Process for CSU

Similar to the new capital outlay process approved for UC last year, the Governor proposes to shift debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the university would issue its own revenue bonds for various types of capital projects and could restructure its existing lease-revenue bond debt. The university would notify the Joint Legislative Budget Committee of project proposals and submit them to DOF for approval.

Currently the state separately funds general obligation bond debt service for CSU capital improvement projects and lists lease-revenue bond debt service in a separate budget item. The Budget calls for \$197.6 million in general obligation bond debt service payments in 2014-15. As part of this proposal, the Administration states that it will not provide further increases for debt service in future years. In addition, the proposal notes that there would be a cap on the amount of the budget CSU could spend on capital projects.

Key issues for the Assembly to consider regarding the Governor's CSU funding proposal include:

- The CSU Board of Trustees' adopted budget proposal calls for a much larger increase in state funding: instead of \$142.2 million as the Governor proposes, the Trustees call for \$237.6 million, which would be about a 10 percent increase over current year funding. CSU Trustees state that their budget proposal would allow them to cover inflationary costs such as health benefits, as well as growing enrollment by 5 percent, continuing efforts to improve student success and providing a 3-percent compensation increase pool for faculty and staff. Will CSU's efforts to improve student graduation rates lead to lower overall costs? How is CSU working to improve operational efficiencies? The Assembly's Blueprint for a Responsible Budget calls for increasing funding to UC, CSU and community colleges beyond the Governor's proposal to allow for enrollment growth and improving quality.
- Enrollment targets have traditionally been a part of the budget. The Legislature has long held access to college as a key priority, and thus conditioned funding for UC and CSU on serving a specific number of students. The Governor has refused to include enrollment targets in the last three budgets. Absent an enrollment target, how would the administration feel if UC or CSU lowered enrollment despite increased funding? What are CSU's long-term enrollment projections? Does CSU have a plan to allow all eligible California students a space in their system? What is the correct balance between policies and funding that increase access to college for California students and improve programs to help those students complete their educational goals?

- Preliminary numbers indicate CSU denied entrance to 26,430 California students in Fall 2013 who were in the top third of their high school class and thus eligible for CSU based on Master Plan guidelines. This continues an alarming trend. Based on current per-full-time-student costs, it would require \$108.3 million in additional General Fund to allow each of these students into school. Should the Assembly make it a priority to ensure that more eligible California students can enroll at a CSU campus?
- It is unclear how the proposed Sustainability Plans would inform budget discussions. Would the Legislature have a role in determining if funding levels and performance targets are appropriate as these plans are developed and released?
- Regarding the capital outlay proposal, the administration indicates that the main purpose of this change is to compel CSU to weigh operations and infrastructure requirements and determine the best allocation of resources between them. The LAO notes concern, however, that the Governor's approach diminishes the Legislature's oversight over the university's use of state funds. In addition, this approach presupposes that a particular amount of debt service funding—in this case, the 2013–14 amount for general obligation bond debt service and the estimated 2014–15 amount for lease–revenue debt service—is an appropriate amount upon which to base ongoing needs, yet the administration offers no evidence to this effect. How will this change benefit CSU's capital outlay program? What are the trade-offs involved with allowing CSU more control over its capital outlay program versus the traditional role of the Legislature in overseeing publicly-funded construction projects?

CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provides general education and vocational certificate programs at 112 community colleges through 72 local districts, which serve approximately 2.3 million students. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

The Governor's Budget proposes total spending of \$7.5 billion (\$4.4 billion General Fund, Proposition 98), an increase of \$501.9 million (7 percent) compared to the current year.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund, Proposition 98	\$3,903,914	\$4,001,198	\$4,396,345	\$395,147	10%
Local Property Tax Revenues	2,240,618	2,232,280	2,326,286	94,006	4
Higher Education Fees and Income	424,521	434,528	447,564	13,036	3
Other Funds (9)	266,867	293,894	293,624	(270)	0
Total Expenditures	\$6,835,920	\$6,961,900	\$7,463,819	\$501,919	7%

Major Provisions

Pays Down all Community College Deferrals

The Governor's largest funding proposal for community colleges is to pay down all deferred debt by the end of 2014-15. (He also proposes paying down all debt owed to the K-12 system.) This would amount to about \$592 million for community colleges: \$194 million in 2012-13 funds, \$163 million in 2013-14 funds, and \$236 million in 2014-15 funds.

Boosts Funding for Student Success Programs

The Governor would provide \$200 million for student success programs. This proposal includes two pieces:

- \$100 million would go to continue augmenting the Student Success and Support Program, the categorical program formerly known as Matriculation. This program was reformed by the 2012 Student Success Act (Chapter 624, Statutes of 2012) and funds various services designed to improve student outcomes, including student orientation, assessment, counseling, advising, and other education planning services. In addition, the bill allows funding to be used to provide support services and other targeted interventions to students who are at risk (students on academic or progress probation, facing dismissal, enrolled in basic skills courses, or undeclared). The 2013 Budget Act included a \$50 million augmentation to this categorical; thus, this proposal continues that framework. The 2013 Budget Act also allowed the Chancellor's Office to use up to \$14 million of this fund to support system-wide student services technology development, such as common assessment, eTran, and online education planning tools. The Governor's proposal continues this allowance.
- \$100 million would be used "to close gaps in access and achievement in underrepresented student groups" as identified in local Student Equity Plans, and to better coordinate delivery of existing categorical programs. This is a new proposal that would allow the Chancellor's Office discretion as to how to distribute this funding; the Governor's proposal states a greater proportion of funding would go to districts with more high-need students, as defined by the Chancellor's Office. The funding would require district's Student Equity Plans to identify how they will coordinate existing student services to better serve high-need student populations. This proposal also would allow districts to use 25 percent of their funds from three other categorical programs (CalWORKS, Extended Opportunity Programs and Services, or EOPS, and Basic Skills) to also support this new effort.

Supports 3 Percent Enrollment Growth

The budget provides \$155.2 million to allow for 3 percent enrollment growth. This continues efforts begun last year, when the 2013 Budget Act provided funding for 1.63 percent enrollment growth – the first funding for new enrollment in five years. The Governor's proposal also calls for the Board of Governors to adopt a new growth formula that "gives first priority to districts identified as having the greatest unmet need in adequately serving their community's higher education needs." Budget bill language states that the Board should consider a growth formula that addresses student needs for transfer, basic skills and vocational/workforce training. The Governor states that all districts would receive some additional growth funding, and over time would be restored to pre-recession apportionment levels.

Funds Physical Plant and Instructional Support Categorical

The Governor provides \$175 million for this categorical, which is designed to help districts address deferred maintenance and instructional equipment needs. This is part of the Governor's overall emphasis on using what he believes to be one-time revenue increases for one-time infrastructure needs. The Governor proposes to split this funding:

- \$87.5 million for deferred maintenance and physical plant needs, which requires districts to provide a 1:1 match on these funds;
- And \$87.5 million for instructional equipment needs, which requires districts to provide a 1:3 match for these funds. Instructional equipment includes library materials or other equipment, including vocational education equipment.

Both of these funds are allocated to districts on a per-student basis. Districts submit a list of projects that total to the amount they will be allocated.

Other Key Provisions**Funds Redevelopment Agency Backfill and Shifts Backfill Determination Schedule**

The Budget provides \$38.4 million for 2013-14 and \$35.6 million for 2014-15 to backfill funding previously anticipated to come from the wind-down of redevelopment agencies. Recent budget acts have committed the state to backfilling community colleges for anticipated redevelopment agency revenue if budgeted projections were off. The Governor also makes a policy proposal aimed at providing a more stable backfill process in future years. Under the new schedule, the Department of Finance would provide General Fund backfill based on April 15 reports from counties regarding the amount each district will receive, instead of waiting until the end of the fiscal year. Final numbers, which are not known until after the close of the fiscal year, would be reconciled in the next year. The current process has created problems for districts because it was unclear how much backfill and redevelopment agency funding they would receive until long after the close of the fiscal year.

Provides a .86 percent Cost-Of-Living Adjustment

The Budget provides \$48.5 million as a cost-of-living adjustment, which is the statutory Proposition 98 COLA for 2014-15. Community college districts and the K-12 system received their first COLA in five years last year (community colleges received a 1.57 percent increase). Unlike the K-12 system, community colleges are not guaranteed a repayment of the missed COLA.

Provides \$39 million for Proposition 39 Energy Efficiency Projects

The Budget provides \$39 million for Proposition 39 energy efficiency projects. This is an \$8-million decrease from the current year, due to lower revenues forecast by the administration. The Chancellor's Office has so far distributed about \$20 million in 2013-14 to energy efficiency projects, ranging from lighting improvements, HVAC system renovations and improvements to water cooling systems.

Increases Chancellor's Office Positions and Provides Funding to Improve Student Outcomes

The Budget provides \$1.1 million in non-Proposition 98 General Fund and 9 new positions to the Chancellor's Office to improve statewide efforts geared at bettering student outcomes. The positions would help develop statewide goals for student outcomes, monitor districts'

performances and focus funding and attention on struggling districts. The proposal includes \$2.5 million in Proposition 98 General Fund that would be offered to districts seeking help in improving outcomes.

Overall, the Governor's community college budget proposal focuses on a few issues: Eliminating all deferrals; 3 percent enrollment growth; and increased support for two categorical programs and status quo funding for the other 23. Among the issues for the Assembly to consider as it develops its community college budget are:

- While it is clear that community colleges need increased funding to accommodate more students, it is not clear if 3 percent is the appropriate growth amount. The LAO expresses concern that 3 percent may be too much and that some districts will not achieve this target; they note that more than a dozen districts failed to meet enrollment targets in 2012-13. Preliminary enrollment numbers for Fall 2013 will be available in late February, which should help the Assembly determine a reasonable enrollment target for 2014-15. Additionally, the Governor's proposal to alter the enrollment funding formula is a major change and should be carefully considered. The resulting change could harm some slower-growing districts. How would the Board of Governors determine which areas of the state had the highest unmet need?
- Aside from basic apportionment and growth funding, there are 23 other categorical programs that support a variety of district, campus and student needs. These programs include apprenticeship, paying part-time faculty to hold office hours to meet with students, and to support students requiring remedial English and math classes. Most of these programs were slashed by about 40 percent during the Great Recession and have not been restored to pre-recession levels. The Budget Act of 2013 increased funding for a few categoricals, including the Student Success and Support Program, EOPS, a program designed to provide services for disabled students, and the Physical Plant and Infrastructure Support program. In his 2014-15 proposal, the Governor selects just two categoricals – Student Success and Physical Plant – for increase. The LAO expresses concern with this, suggesting that student outcomes could be improved with broader funding of more categorical programs or a block grant approach that would combine categorical funding. The Assembly may wish to examine categorical programs and determine which provide the best services to colleges and students to achieve statewide priorities.
- Many districts have not updated Student Equity Plans since before the Great Recession, so it remains unclear if these plans are developed enough to help steer a significant new influx of funding. In addition, it is unclear how the Chancellor's Office will define a "high-needs student" as it develops the funding process for this proposal. The community college system already has a myriad of programs designed to aid students with challenges; is another one really needed?
- From a fiscal and policy standpoint, it is prudent to eliminate inter-year deferrals, as they remain outstanding obligations on the state's books. The deferrals come with borrowing costs for districts, in order to address cash flow concerns caused by the delayed state payments. However, the key issue for the Assembly to consider is whether paying off all debt by 2014-15 outweighs the advantages of slowing down debt payment and re-investing in programs that remain dramatically under-funded. There

are many ways to use one-time funding for prudent investments, including on infrastructure and equipment.

- State and federal funding for community college workforce development programs, including the Economic and Workforce Development Program, the Career Technical Education Pathways Program, and the Carl D. Perkins Leadership Program, amount to nearly \$200 million annually. Increasing evidence shows that these programs can provide a significant boost to state and regional economies and improve individuals' wage-earning opportunities. Recent studies by the Institute for Higher Education and Leadership and Policy have identified key barriers to improving these programs in California, including:
 - - The workforce development mission is marginalized from the academic core of many institutions;
 - There is insufficient focus on programs and their outcomes;
 - And individual colleges do too much in isolation, creating excessive workload and variability in policy and practice that do not benefit students.

An August 2013 report by the Institute focused on the challenges of funding career and technical education programs, noting that California community colleges have a fiscal disincentive to continue these programs during bad budget years: the programs cost more to operate but state apportionment funding is the same for these programs as it is for liberal arts programs. The Institute's report noted that other states maintain these programs through differential funding, higher tuition and fees, or other strategies, including performance-based funding. The Governor provides largely status-quo funding for these programs for 2014-15, while the Assembly Blueprint for a Responsible Budget called for increasing and improving community college workforce development programs. The Assembly can consider methods to boost these programs as it creates a community college budget package.

AWARDS FOR INNOVATION IN HIGHER EDUCATION

The Governor proposes a new line item in the budget to provide \$50 million General Fund in grants to encourage innovation at UC, CSU, and CCC campuses. Proposed budget language defines three state priorities: (1) significantly increasing bachelor's degree attainment in the state, (2) shortening time to degree, and (3) easing transfer across segments. Campuses, both individually and in groups, could apply for awards to implement innovative higher education models that achieve these priorities. A committee of five Governor's appointees representing DOF and the segments' governing boards (including the State Board of Education) and two legislative appointees selected by the Assembly Speaker and Senate Rules Committee would make award decisions. The committee would look for proposals that reduce the costs of instruction; involve collaboration across campuses, segments, and educational levels; are replicable; and show commitment from campus officials and stakeholders.

This is proposed as one-time funding.

Increasing bachelor's degrees, shortening students' time to degree and easing transfer across the systems are important goals. However, the Assembly should consider the following as it reviews this proposal:

- The LAO notes that last year, the Governor signed SB 195 (Liu), Chapter 367, statutes of 2013, which set three broad state goals for higher education that differ somewhat from the state priorities the Governor proposes. In addition, the 2013 Budget Act requires UC and CSU to report on seven different performance metrics; why shouldn't these funds be used to improve performance on all seven metrics
- The Governor's proposal creates a new committee chaired and staffed by the Department of Finance to select grant winners. It is unclear exactly how winners would be selected and how much influence legislative appointees would have in this process.
- This new program is presented as a way to broaden the scale of promising practices. But it is unclear how one-time funding could lead to systemic change. The LAO notes that earmarking a relatively small amount of one-time funding for campuses to address state priorities could send a poor message and encourage business-as-usual with the bulk of the state's higher education investment.
- The Assembly could consider other priorities for this \$50 million. For example, that amount would fully support UC's "Reinvestment in Academic Quality" proposal, or a similar effort at CSU to support programs that improve student outcomes. Is this the best way to spend \$50 million on higher education?

CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant Program, which is the primary state source of financial aid, and the newly-established Middle Class Scholarship.

The Commission is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, 2 members are appointed by the Senate Rules Committee, and 2 members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

The Governor's Budget proposes total spending of \$1.9 billion (\$1.3 billion General Fund), an increase of \$98.2 million (5.9 percent) compared to the current year, and 116.7 positions, a 1 percent decrease compared to the current year.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$670,503	\$1,042,247	\$1,298,837	\$256,590	25%
Student Loan Operating Fund	84,819	98,149	60,000	(38,149)	(39)
Federal Trust Fund	15,006	15,034	15,034	0	0
Reimbursements	818,161	556,611	559,827	3,216	1
Total Expenditures	\$1,588,489	\$1,712,041	\$1,933,698	\$221,657	13%
Positions	91.5	117.7	116.7	-1	(1)

Major Provisions

Begins Implementation of the Middle Class Scholarship

The Governor's Budget provides \$107 million in 2014-15 to begin the Middle Class Scholarship program, which was agreed to in the 2013 Budget Act. Under the program, students with family incomes up to \$100,000 qualify to have 40 percent of their tuition covered (when combined with all other public financial aid). The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student with a family income of \$150,000 qualifies to have 10 percent of tuition covered. The program is to be phased in over four years, with awards in 2014-15 set at 35 percent of full award levels, then 50 percent, 75 percent, and 100 percent of full award levels the following three years, respectively. The 2013 agreement called for \$107 million for the program in 2014-15, \$152 million in 2015-16, and \$228 million in 2016-17, with funding for the program capped at \$305 million beginning in 2017-18. If the appropriation is insufficient to provide full awards to all eligible applicants, CSAC is to reduce award amounts proportionately.

Current projections indicate more than 176,000 students might benefit from the program in 2014-15.

Reforms Cal Grant Renewal Requirement

The Governor's Budget includes a policy change that would allow Cal Grant recipients who are denied renewal due to changes in their income the ability to re-apply for the program in subsequent years. This proposal is similar to legislation (AB 1287, Quirk-Silva) approved by the Legislature last year but vetoed by the Governor. The Governor's proposal would allow a student to reapply for Cal Grant within three academic years after being disqualified for renewal, if their family income falls again within eligibility limits. The Budget estimates this will add \$14.9 million General Fund to Cal Grant costs.

Other Key Provisions

Funds Cal Grant Program Growth

The Governor's Budget provides \$3.4 million General fund in 2013-14 and \$103.3 million General Fund in 2014-15 to support Cal Grant program growth. Cal Grant spending would be \$1.8 billion for 2014-15 under the proposal, supporting 304,923 students.

Continues Financial Aid Fund Shift

The Governor's proposal continues to offset Cal Grant General Fund costs with federal Temporary Assistance for Needy Families (TANF) funding. The budget would use \$544.9 million in TANF funds for the Cal Grant program, roughly the same amount as last year.

Continues Use of Student Loan Operating Fund

Proposes to offset \$60 million in Cal Grant General Fund costs with funds from the Student Loan Operating Fund, which receives proceeds from the federal guaranteed student loan program.

Among the issues the Assembly should consider as it develops the budget for the California Student Aid Commission are:

- The Cal Grant B program provides support to low-income high school graduates who have at least a 2.0 grade point average in high school. Cal Grant B recipients receive an annual stipend of \$1,473 to be used for books and other costs, and the B program also covers tuition expenses in the 2nd, 3rd and 4th year of college – but not the first. Expanding the program to cover the first year of tuition would boost low-income students' ability to attend UC and CSU, as well as allow UC and CSU to use institutional aid now covering tuition for these students for other financial aid purposes. Reforming the Cal Grant B program was identified in the Assembly Blueprint for a Responsible Budget.
- The Cal Grant competitive program offers a limited number of Cal Grant A or B awards to older students who do not qualify for the entitlement program. The number of grants has been limited to 22,500 per year in statute, despite tremendous demand: more than 317,000 Californians applied for and were eligible for this grant in 2012-13, according to the California Student Aid Commission (CSAC). Only 8 percent of applicants received the award. Those who were eligible but did not receive the award had an average annual income of \$20,861, an average age of 27, an average high-school GPA of 2.89 and an average family size of 2.8, according to CSAC data. Expanding the amount of Cal Grant competitive awards was identified in the Assembly Blueprint for a Responsible Budget. Adding 26,000 awards would allow that many more older, low-income students to attend college at a cost of about \$54 million General Fund.

CALIFORNIA STATE LIBRARY (CSL)

The California State Library is the state's information hub, preserving California's cultural heritage and connecting people, libraries and government to the resources and tools they need to succeed and to build a strong California.

Founded in 1850, the California State Library is the oldest and most continuous cultural agency in the State of California. Decades before there was a university system or a public library system, there was the California State Library.

The Governor's Budget proposes total spending of \$44.2 million (\$23.6 million General Fund), a decrease of \$4.3 million (9 percent) compared to the current year, and 135.8 positions, a 2 percent decrease.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$19,095	\$23,977	\$23,574	(\$403)	(2%)
Federal Trust Fund	14,001	19,994	17,768	(2,226)	(11)
Other Funds (5)	3,203	4,554	2,893	(1,661)	(36)
Total Expenditures	\$36,299	\$48,525	\$44,235	(\$4,290)	(9%)
Positions	129.2	138.8	135.8	(3.8)	(2)

Major Provision

Funds High-Speed Internet Access for Public Libraries

The Governor's Budget proposes \$3.25 million in General Fund to allow California's public library branches to access a statewide, high-speed Internet network. The 2013 Budget Act included budget bill language directing the State Librarian to conduct a needs assessment regarding Internet access at local libraries, and a spending plan to allow libraries to improve Internet connections. A final draft of this report will be released in February with further details on this proposal.

HASTINGS COLLEGE OF THE LAW (HCL)

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, appointed by the Governor for 12-year terms, oversees the college. The Juris Doctor degree is granted by the Regents of the University of California, and is signed by the President of the University of California and the Dean of Hastings College of the Law. Enrollment is projected to be 959 students in 2014-15.

The Governor's Budget proposes total spending of \$70 million (\$9.6 million General Fund), a decrease of \$3.3 million (-4.5 percent) compared to the current year, and 246.8 positions, the same as the current year. Among the changes to General Fund spending are:

- \$1.3 million to mitigate the need for increased tuition or fees in 2014-15.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$7,849	\$8,360	\$9,628	\$1,268	15%
University Funds – Unclassified	47,437	48,473	46,198	(2,275)	(5)
Other Funds (2)	20,884	15,415	13,168	(2,247)	(15)
Total Expenditures	\$76,170	\$72,248	\$68,994	(\$3,254)	(5)
Positions	242.8	246.8	246.8	0	0



HEALTH SERVICES

Millions of Californians have gone without access to health care for generations, but at last, in the new world of the Affordable Care Act, the numbers of uninsured will take a sharp dive this year. Already, Covered California has enrolled over half a million Californians into coverage, and the state expects millions more to gain coverage through either the Exchange or Medi-Cal. Yet, while we celebrate the successes of federal health care reform, and grapple with its immense workload, we should remain mindful of the opportunities we pass up every day, in the form of our lack of attention and resources for public health strategies, thereby allowing illness to persist and fueling the very expensive engine we call health care.

As The California Endowment has drawn attention to recently, one's zip code should not be an indicator of life expectancy, and yet it is in California. Where you live, i.e., one's socio-economic status, is a clear indicator of life expectancy, and of health status for all ages. Poverty is the single largest health risk factor for Californians. According to *The Burden of Chronic Disease and Injury 2013* (California Department of Public Health): "A white child from the Oakland Hills can expect to live to 85 years old, whereas an African-American child living in West Oakland – just a few miles away – can only expect to live to 70."

All of the following contribute to higher morbidity and mortality rates, and higher rates of premature death: lower educational attainment, lower income, higher unemployment, reduced access to healthy foods, increased access to tobacco, alcohol and fast food, reduced access to opportunities for physical activity, and increased exposure to violence. Nearly forty percent of deaths in California can be attributed to one of the following: 1) lower education; 2) individual poverty; 3) low social support; 4) area-level poverty; 5) income inequality; or 6) racial segregation. Also from *The Burden of Chronic Disease*, An African-American child growing up in West Oakland, once an adult, will be: 5 times more likely to be hospitalized for diabetes; 2 times more likely to be hospitalized for heart disease; 2 times more likely to die of heart disease; 3 times more likely to die of stroke; and 2 times as likely to die of cancer.

Kern County provides a good example of the relationship between geography and population health, as the county is ranked 41st of 58 counties for median income (2010-12 American Community Survey) and is experiencing an epidemic of chronic disease as evidenced by the following: 1) sixty percent of the population is overweight or obese; 2) the county has the highest morbidity rate from heart disease, the second-highest rate from diabetes, and the third-highest rate from homicide and all causes; and 3) the county had 110 unhealthy air-quality days due to ozone, while the state's average was 51 days. Statewide, 2009 data showed that hospitalization rates as a result of asthma were approximately 20 per 10,000 people for the population with a median annual income of \$20,000. For the population with a median annual income of over \$100,000, the rate was approximately 5 per 10,000.

Historically, the state's investment in reducing these significant health disparities has been minimal and was reduced even further during the past several years. The 2008-09 budget included approximately \$350 million in General Fund for the Department of Public Health, whereas the proposed 2014-15 budget includes approximately \$110 million General Fund, a 69 percent reduction. These reductions occurred in programs throughout the department,

including: Black Infant Health, Adolescent Family Life, Dental Disease Prevention, Asthma Public Health Initiative, Injury Control, and the elimination of an array of HIV/AIDS programs and services, such as therapeutic monitoring and HIV education. Rebuilding California's public health infrastructure will be critical to efforts to: bring children out of poverty; strengthen and stabilize California's economy; and to protect the state from otherwise uncontrollable health care costs.

Major Policy Issues the Assembly May Wish to Consider:

- California's Medi-Cal provider rates are estimated to be near the lowest in the nation, compared to other states, and have been reduced substantially over the past several years. Moreover, evidence points to insufficient access to many specific types of providers and services. The Medi-Cal program is in the early stages of a major expansion, having just received 760,000 children from the now-defunct-Healthy Families Program, and an estimated 1.4 additional Californians expected to enroll as a result of the ACA. With questions being raised about sufficient access in the program today, it can only worsen as the enrollment numbers grow. Are the Medi-Cal rates too low to attract and maintain a sufficient number of providers in the program to ensure good access to medical care? The Assembly's Blueprint for a Responsible Budget calls for addressing inadequate provider rates in the Medi-Cal program.
- As described above, as well as below in the section on the Department of Public Health, California's investment in public health is minimal at best, and shrinking all the time. Substantial reductions have been made to numerous programs that: 1) limit the spread of infectious diseases; 2) reduce the number of preventable, premature deaths; or 3) curb behaviors that lead to serious, chronic, and costly health conditions. Some experts predict that the health care costs of obesity-related conditions alone have the potential to bankrupt the state. A real investment in strategies that keep people well, and out of doctors' offices, is an investment in a healthier population and a more economically stable health care system and state overall. Should the state reinvest in public health, and rebuild the stalwart public health infrastructure that the state once had? The Assembly's Blueprint for a Responsible Budget calls for addressing the state's minimal investment in key public health programs and strategies.
- In light of the substantial reductions in the area of emergency medical preparedness, described in detail in the section covering the Emergency Medical Services Authority (EMSA), the Assembly may wish to consider requesting or requiring either EMSA, or an independent entity, to conduct a review of the state's overall emergency preparedness infrastructure and capacity. This review could include: 1) a comparison of the state's ability to provide medical services in a major emergency today compared to other times in history; 2) a review of the emergency preparedness capacity of local governments; 3) a comparison of California's resources with those of other states and nations; and 4) recommendations on the types and levels of resources that California should have in order to be able to effectively respond to a major medical emergency in a cost-effective manner.

DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services' (DHCS) mission is to protect and improve the health of all Californians by operating and financing programs delivering personal health care services to eligible individuals. DHCS's programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner. DHCS programs include:

- **Medi-Cal.** The Medi-Cal program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal coordinates and directs the delivery of health care services to approximately 8.3 million qualified individuals, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, low income people with specific diseases, and now, with the Affordable Care Act, childless adults up to 138 percent of the federal poverty level.
- **Children's Medical Services (CMS).** CMS coordinates and directs the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases; its programs include the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.
- **Primary and Rural Health.** Primary and Rural Health coordinates and directs the delivery of health care to Californians in rural areas and to underserved populations, and it includes the: Indian Health Program; Rural Health Services Development Program; Seasonal Agricultural and Migratory Workers Program; State Office of Rural Health; Medicare Rural Hospital Flexibility Program/Critical Access Hospital Program; Small Rural Hospital Improvement Program; and the J-1 Visa Waiver Program.
- **Mental Health & Substance Abuse.** As adopted in the 2011 through 2013 Budget Acts, the DHCS oversees the delivery of community mental health and substance use disorder services, reflecting the elimination of the Departments of Alcohol and Drug Programs and Mental Health.
- **Other Programs.** DHCS oversees family planning services, cancer screening services to low income under-insured or uninsured women and prostate cancer treatment services to low-income, uninsured men, through the Every Woman Counts Program, the Family Planning Access Care and Treatment Program and the Prostate Cancer Treatment Program.

DHCS Budget

For Fiscal Year 2014-15, the Governor's Budget proposes \$76 billion for the support of DHCS programs (primarily Medi-Cal, which is discussed in more detail below). Of this amount, \$556 million is budgeted for state operations, while the remaining \$75.5 billion is for local assistance. The proposed budget reflects a 4 percent increase over the current year budget.

DEPARTMENT OF HEALTH CARE SERVICES					
<i>(Dollars in Thousands)</i>					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$15,117,724	\$16,480,591	\$17,212,283	\$731,692	4.4%
Federal Fund	27,186,874	42,405,766	45,111,444	2,705,678	6.4
Special Funds & Reimburse- ments	9,642,847	13,366,133	13,810,225	444,092	3.3
Total	\$51,947,445	\$72,252,490	\$76,133,952	\$3,881,462	5.4%
Expenditures					
Positions	3,028.0	3,550.2	3,693.3	143.1	4.0

The Medi-Cal Program

Medi-Cal is California's version of the federal Medicaid program. Medicaid is a 48-year-old joint federal and state program offering a variety of health and long-term services to low-income women and children, elderly, and people with disabilities. Each state has discretion to structure benefits, eligibility, service delivery, and payment rates under requirements established by federal law. State Medicaid spending is "matched" by the federal government, at a rate averaging about 57 percent for California, based largely on average per capita income in the State. California uses a combination of state and county funds augmented by a small amount of private provider tax funds as the state match for the federal funds. As is discussed in more detail below, California's Medicaid rates are estimated to be near the lowest of all fifty states.

Medicaid is the single largest health care program in the United States. According to the Kaiser Family Foundation (KFF), in 2011 the average monthly enrollment was projected to exceed 55 million, and a projected 70 million people, roughly 20 percent of Americans, were expected to be covered by the Medicaid program for one or more months during the year. In California, the estimated average monthly enrollment is eight million or roughly one seventh of the national total program enrollment. Approximately 29 percent of Californians are enrolled in Medi-Cal.

Beginning this year, the federal Affordable Care Act (ACA) will support the expansion of Medicaid coverage to nearly all non-elderly Americans and legal immigrants who have been in the United States at least five years and who have incomes below 138 percent of the Federal Poverty Level. This expansion is estimated to increase Medi-Cal enrollment by 1.4 million Californians by 2019.

Funding for the Medi-Cal program is summarized in the table below. Medi-Cal costs have grown about six-percent annually since 2006-07 due to a combination of health care cost inflation and caseload growth. The proposed 2014-15 Medi-Cal local assistance budget is about 5 percent greater than the estimated 2013-14 budget.

Medi-Cal Funding Summary (Dollars In Millions)	2013-14 Estimate	2014-15 Proposed	BY to CY \$ Change	% Change
General Fund	\$16,229.9	\$16,899.5	\$669.6	4.1%
Federal Funds	43,631.3	45,752.5	2,121.3	4.9
Other Funds	9,816.7	10,854.5	1,037.8	10.6
Total Local Assistance	\$69,677.7	\$73,506.4	\$3,828.7	5.5%
Medical Care Services	65,641.0	69,725.3	4,084.3	6.2
County Administration (Eligibility)	3,622.5	3,361.9	(260.6)	(7.2)
Fiscal Intermediary (Claims Processing)	414.3	419.3	5.0	1.2

DHCS Expansion

Over the past few years, DHCS has undergone a substantial transformation into a much larger department. DHCS has undertaken a massive increase in authority and responsibility in terms of both programs that have been transferred from other departments to DHCS as well as significant new Medi-Cal initiatives, including the following:

- ***Affordable Care Act Implementation.*** DHCS is responsible for an array of activities, responsibilities, and functions related to the full implementation of the ACA, the most significant of which is the expansion to the Medi-Cal Program.
- ***Healthy Families Transition.*** In 2012 the Governor proposed and the Legislature approved of the transition of all children in the Healthy Families Program to Medi-Cal. Approximately 760,000 children transitioned from Healthy Families to Medi-Cal in 2013. This transition is complete.
- ***Coordinated Care Initiative (CCI).*** In 2012, the Governor proposed and the Legislature approved of the CCI to integrate care for "dual eligibles" (in Medicare and Medi-Cal), involving the creation of an entirely new way to provide care to this population. DHCS has begun implementing the CCI, and dual-eligibles can begin being enrolled no sooner than April 1, 2014.
- ***Seniors & Persons with Disabilities.*** In 2011-12, DHCS transitioned 350,000 seniors and persons with disabilities into managed care, from fee-for-service Medi-Cal.
- ***Rural Managed Care.*** In 2012, the Governor proposed and the Legislature approved of providing DHCS authority to seek out and establish contracts with managed care organizations to serve Medi-Cal beneficiaries in California's still-fee-for-service, primarily rural counties. DHCS selected Anthem Blue Cross, California Health and Wellness Plan, and Partnership Health Plan of California to serve these rural counties.
- ***Community Mental Health Care.*** The 2011-12 budget package moved Medi-Cal mental health programs, and the 2012-13 budget package moved several non-Medi-Cal community mental health programs, from the former Department of Mental Health to DHCS.

- **Substance Use Disorder Treatment Services.** The 2011-12 budget package moved Drug Medi-Cal from the Department of Alcohol and Drug Programs (DADP) to DHCS, and the 2013 budget approved of the transition of the remaining non-Medi-Cal DADP programs to DHCS.
- **Direct Services from the Department of Public Health (DPH).** The 2012 budget approved of the Governor's proposal to move the Every Woman Counts, Family Planning Access Care and Treatment, and Prostate Cancer Treatment Programs from DPH to DHCS.

Major Provisions – Department of Health Care Services 2014-15

Medi-Cal Provider Rate Reductions

As a result of the state's fiscal crisis, AB 97 (Committee on Budget), Chapter 3, Statutes of 2011, requires DHCS to implement a 10 percent Medi-Cal provider payment reduction starting June 1, 2011. This 10 percent rate reduction applies to nearly all providers with certain exemptions. Other provider types have a varied implementation of the 10 percent rate reduction.

- **Federal Approval and Access Monitoring.** On October 27, 2011, the federal Centers for Medicare and Medicaid Assistance (CMS) approved California's State Plan Amendment (SPA) containing this proposal to reduce Medi-Cal provider reimbursement rates for various healthcare services. Prior to implementing the provider rate reductions, CMS required DHCS to: 1) provide data and metrics that demonstrated that beneficiary access to these services (based on geographic location) would not be impacted; and 2) develop and implement a healthcare access monitoring system (for ongoing evaluation).
- **Court Injunctions.** After CMS approval of the rate reductions, a U.S. District Court issued preliminary injunctions preventing DHCS from implementing most of the provider payment reductions. On December 13, 2012, a Ninth Circuit Court of Appeals panel reversed the district court's decisions, thereby allowing the rate reductions to proceed.
- **Retroactive Savings.** Federal approval of the AB 97 rate reductions was obtained in October 2011; however, since the state had been prevented from implementing most of these rate reductions due to court injunctions, there is a retroactive period of savings (generally from June 1, 2011 to present) in addition to the ongoing out-year savings achieved by these rate reductions. The total amount of fee-for-service savings projected to be recouped in 2013 was \$998.6 million from the retroactive period. Last year, DHCS explained that federal CMS regulations require that the state pay providers "using rates determined in accordance with the methods and standards specified in an approved State plan" (42 C.F.R. §447.253(i)) and since this reduction is specified in the approved State plan, the state is obligated to pay this rate or would have to use state funds to make up the difference. Generally, DHCS has proposed to recoup the retroactive savings over a 24 month period.

- **2013 Updates.** In August 2013, DHCS released an AB 97 implementation plan and timeline, which announced the following three exemptions:
 - ✓ Nonprofit dental pediatric surgery centers that provide at least 99% of their services under general anesthesia to children with severe dental disease under age 21 were exempted prospectively from the 10% payment reduction.
 - ✓ Distinct part nursing facilities, Level B, classified as rural or frontier, based upon the California Medical Service Study Area's definitions, were exempted prospectively from the 10% payment reductions and were not subject to the rate freeze at the 2008-09 levels on a prospective basis. Subsequently, SB 239 (Hernández, Steinberg), Chapter 657, Statutes of 2013, modified AB 97 by exempting all Distinct Part Nursing Facilities (DPNFs) from the ten percent reduction on a prospective basis, beginning October 1, 2013.
 - ✓ Certain prescription drugs (or categories of drugs) that are generally high-cost drugs used to treat extremely serious conditions, such as hemophilia, multiple sclerosis, hepatitis and others will be exempt from the 10% payment reduction.
- **Proposed 2014-15 Budget.** The proposed budget includes \$5.8 million General Fund for 2013-14 and \$36.3 million General Fund for 2014-15 to cover the cost of forgiving the retroactive recoupments of AB 97 provider rate reductions for the following provider groups and services: physicians, clinics, specified high-cost drugs for serious conditions, dental, ICF/DD, and medical (ground and air) transportation. The Budget assumes a total cost of \$217.7 million over several years.

Substantial stakeholder support exists throughout the state to raise Medi-Cal rates. Advocates and stakeholders point to evidence that California's Medi-Cal rates may be the lowest, or close to the lowest, in the nation. With over a million new people potentially enrolling into Medi-Cal, it's difficult to imagine how the Medi-Cal program will ensure sufficient access to providers and services, particularly given evidence of existing access challenges throughout the program. Thus, the Assembly Democratic Caucus's 2014-15 Blueprint for a Responsible Budget highlights the importance of addressing inadequate Medi-Cal rates.

Affordable Care Act Implementation

The Medi-Cal budget contains significant assumptions arising out of the implementation of the federal Patient Protection and Affordable Care Act (ACA), particularly with regard to the Medi-Cal expansion and simplifications. Moreover, DHCS's budget contains several requests for additional resources, in the form of Budget Change Proposals, to implement various aspects of the ACA, including some provisions that were adopted through 2013 legislation. This year's budget also contains one new proposal related to coverage and services for pregnant women. Specifically, the Governor's budget assumes \$16.6 million General Fund savings in 2014-15 to be achieved by the state paying for the out-of-pocket costs for pregnancy-only Medi-Cal beneficiaries electing to receive comprehensive coverage through Covered California, beginning January 2015. Additional significant ACA-related assumptions in the budget include:

- **Mandatory Expansion.** Assumes net Medi-Cal costs of \$867.4 million (\$404.9 million General Fund) in 2014-15 reflecting anticipated increased enrollment resulting from simplifications and other improvements to the program required by the ACA. This "mandatory expansion" decreased by \$5.3 million Total Funds from the 2013-14 appropriation and there is an increase of \$644.5 million Total Funds in 2014-15.
- **Optional Expansion.** Assumes net costs of \$6.7 billion (all federal funds) in 2014-15 to cover the costs of the "optional expansion" to Medi-Cal approved through 2013 legislation as a component of the ACA, in anticipation of an increase in enrollment of 1.4 million people. The optional expansion increased by \$931.5 million Total Funds from the appropriation in 2013-14 and there is an increase of \$3,976.0 million Total Funds in 2014-15, per revisions to account for additional Low-Income Health Program caseload and Specialty Mental Health services.
- **Other ACA Changes.** Other changes associated with the implementation of the ACA result in an increase of \$20.2 million in 2013-14 and \$35.9 million in 2014-15, including: Hospital Presumptive Eligibility, delay in redeterminations, Newly Qualified Immigrants wraparound of out-of-pocket expenditures, Express Lane Enrollment, and the proposed changes to pregnancy coverage that are described above.

Coordinated Care Initiative

The 2012 budget package, specifically through SB 1008 and SB 1036 (Committee on Budget & Fiscal Review), Chapters 33 and 45 respectively, Statutes of 2012, created the Coordinated Care Initiative (CCI) which has three major components: 1) expands an existing pilot program to a maximum of eight counties wherein care is to be coordinated within one health plan for beneficiaries who are dually eligible for, and enrolled in, Medi-Cal and Medicare; 2) transitions all "dual-eligible" individuals throughout the state from Medi-Cal fee-for-service into Medi-Cal managed care; and 3) transitions long-term services and supports (LTSS) into managed care benefits. DHCS selected the following 8 counties to participate in the pilot (or "demonstration") project: Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara. DHCS delayed implementation until no sooner than April 2014. SB 94 (Committee on Budget & Fiscal Review), Chapter 37, Statutes of 2013, modified the CCI, by authorizing DHCS to allow the components of the CCI to be implemented independently of each other. Specifically, the enrollment of dual-eligibles into managed care, and the integration of LTSS into managed care in the 8 selected counties may proceed separately from the demonstration project (now called "Cal MediConnect").

Recent Developments:

- On January 24, 2014, DHCS announced that Orange County will not be participating, temporarily, in the demonstration project as a result of federal CMS orders in response to a CMS audit of CalOptima's Medicare dual eligible special needs plan product. CalOptima must take immediate corrective actions before it will be permitted to participate in Cal MediConnect.
- On February 3, 2014, DHCS announced that additional plans in Los Angeles will be allowed to participate in Cal MediConnect in order to provide consumers with more plan choices, given that seniors cannot be automatically enrolled in LA Care due to its low Medicare quality rating and CMS-required improvements. In addition to LA Care and Health Net, the following plans will be included: CareMore, Care 1st, and Molina.

The Governor's proposed 2014-15 budget includes the following modifications to the implementation of the CCI:

- Requires "dual-eligibles" who are in fee-for-service Medicare to be automatically enrolled into Cal MediConnect beginning April 2014 in all participating counties except Los Angeles, Alameda, and Santa Clara. Proposes that in Los Angeles, dual-eligibles may voluntarily enroll in Cal MediConnect or opt out beginning April 2014, and the remaining dual-eligibles to be passively enrolled beginning July 2014. Requires dual-eligibles in Alameda and Santa Clara counties to be passively enrolled no sooner than July 2014.
- Requires those dual-eligibles in Medicare Advantage plans and those opting out of Cal MediConnect in all participating counties to be enrolled in managed care for Medi-Cal benefits beginning July 2014. Requires dual-eligibles in Medicare Advantage plans who do not opt out of the project to be enrolled into Cal MediConnect for Medicare benefits in January 2015.
- Requires individuals who are eligible only for Medi-Cal or for partial Medicare coverage in participating counties to have LTSS included in managed care beginning July 2014.

Pediatric Dental Care Outreach

- The proposed 2014-15 budget includes \$17.5 million (Proposition 10 funds provided by the California Children and Families Commission) to increase dental care outreach activities for children ages zero to three years. Specifically, DHCS proposes to identify beneficiaries who are ages 0-3, during their birth months, that have not had a dental visit during the past 12 months, and mail parents/legal guardians a letter that: 1) encourages them to take their children to see a dental provider; and 2) provides educational information about the importance of early dental visits.

Other Key Provisions – Department of Health Care Services 2014-15

- The DHCS has included many resource requests in the proposed 2014-15 budget. The DHCS proposals would add 170.5 positions, the most significant of which are for implementation of the county true-up mechanism for capturing county ACA-related savings, modernization of the Medi-Cal Eligibility Data System (MEDS), ACA enrollment and recertification of Medi-Cal drug treatment providers, and implementation of enhanced mental health and drug treatment services. These 170.5 positions are comprised of new permanent positions, new limited-term positions, extensions of existing limited-term positions, and conversions from contracted or limited-term positions to permanent positions.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is dedicated to optimizing the health and well-being of the people in California, primarily through population-based programs, strategies, and initiatives. The DPH's goals are to achieve health equities and eliminate health disparities; eliminate preventable disease, disability, injury, and premature death; promote social and physical environments that support good health for all; prepare for, respond to, and recover from emerging public health threats and emergencies; improve the quality of the workforce and workplace; and promote and maintain an efficient and effective organization.

DPH Budget

As summarized in the table below, the Governor's proposed 2014-15 budget provides approximately \$3 billion overall, representing a \$472 million (total funds), or 13.6 percent, reduction from the current year DPH budget. This reduction largely reflects the proposed transfer of the Drinking Water Program out of the DPH to the State Water Resources Control Board, which is discussed in more detail below. General Fund dollars make up just 3.7 percent of the department's total budget while federal funds make up approximately 57 percent of the total budget.

DEPARTMENT OF PUBLIC HEALTH (Dollars In Thousands)					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$129,474	\$115,182	\$110,629	(\$4,553)	(3.9%)
Federal Funds	1,785,473	1,888,068	1,732,974	(155,094)	(8.2)
Special Funds & Reimbursements	1,154,866	1,480,387	1,167,562	(312,825)	(21.1)
Total Expenditures	\$3,069,813	\$3,483,637	\$3,011,165	(\$472,472)	(13.6%)
Positions	3,493.2	3,795.7	3,541.4	(254.6)	(6.7)

General Fund in DPH. The General Fund in the DPH has been reduced dramatically over the past few years. In 2008-09, the DPH budget included approximately \$350 million in General Fund, as compared to the currently proposed \$110 million, a 69 percent reduction. Furthermore, the proposed 2014-15 budget for the DPH is almost \$5 million General Fund less than the current year budget.

Major Provisions – Department of Public Health 2014-15

Drinking Water Program

The Governor's budget proposes to move the Drinking Water Program (DWP) from DPH to the State Water Resources Control Board, consistent with AB 145 (Perea), 2013, and the Assembly Democratic Caucus's 2014-15 Blueprint for a Responsible Budget. This would involve the transfer of \$200.3 million (\$5 million General Fund) and 291.2 positions from DPH to the Water Board.

Background. Over the past several years, the Legislature has focused oversight efforts on the provision of safe drinking water throughout the state, and in particular to small, disadvantaged communities mainly in rural areas. The 1969 Porter-Cologne Water Quality Act established the state's role in the protection of water quality and was followed by various groundwater and

drinking water protection laws throughout the following decades. The Legislature, starting in 2008, has held numerous oversight hearings discussing groundwater and drinking water legislation, with a focus on providing clean drinking water, and looking at the root causes of water quality degradation. The conclusion of these hearings, as well as various reports, is that the majority of the water supply in California is safe and clean. However, there are gaps where the provision of clean, safe water is a challenge, particularly in small, disadvantaged, and rural communities.

SB 1 X2 (Perata), Chapter 1, Statutes of 2007-08 Second Extraordinary Session required the State Water Resources Control Board (SWRCB), in consultation with other agencies, to prepare a report to the Legislature outlining the causes of groundwater contamination and identifying potential remediation solutions and funding sources to recover state costs of providing clean drinking water to all communities. This report, prepared by UC Davis researchers, was the basis for much of the groundwater and drinking water discussions this past year. In addition, AB 685 (Eng), Chapter 685, Statutes of 2012 declares that it is the established policy of the state that every human have the right to water for domestic uses. The law requires state agencies to consider this as they move forward with water policies in the future. Much discussion has gone on amongst various water advocacy organizations and legislative staff regarding complaints about the management of the drinking water program within DPH. Certain stakeholders have alleged that DPH is slow to make funds available to communities that need them and is fairly inaccessible and unresponsive to stakeholder requests.

In a report entitled *Evaluating the Potential Transfer of Drinking Water Activities from DPH to SWRCB*, the Legislative Analyst's Office (LAO) further documented stakeholders concerns with regard to DPH including: its lack of integration with overall water quality management; slow distribution of financial assistance; slow rulemaking process; insufficient fee structure leading to inadequate administrative resources; and, lack of transparent decision-making. The LAO's report stated that 30 states have consolidated drinking water and water quality programs in a single state entity and that some have consolidated their revolving loan programs. The LAO concluded transferring the DWP to SWRCB could have several potential advantages including greater policy integration on water issues; accelerated rulemaking; increased efficiencies and administrative capacity; heightened transparency and greater public participation by utilizing a board that meets in public. The LAO's report also cautioned that there could be potential disadvantages, including: loss of integration with public health programs that monitor infectious diseases and incidences of birth defects and cancer; temporary disruption in the program's capacity to perform regulatory activities; and, potentially increased, mainly short-term, costs to relocate staff, reclassify positions, and integrate information technology systems.

In 2013, the United States Environmental Protection Agency (EPA) submitted a letter to the California DPH stating that California has not administered the California Safe Drinking Water State Revolving Fund in accordance with applicable EPA requirements. California has received \$1.5 billion in federal grants since 1998 to capitalize the California Safe Drinking Water State Revolving Fund. Specifically, the letter states:

"States are required to make timely loans or grants using all available drinking water funds to eligible water systems for necessary projects, and California has failed to meet this standard. Additionally, the California Department of Public Health has issued loans or grants to many projects, which are not "shovel ready," resulting in funds not being paid out for years. As of October 2012, the drinking water fund had an unspent balance of \$455 million in federal funds. This sum is the largest unliquidated obligation of any state in the nation."

Furthermore, the notice states that states are required to have dedicated accounting and financial staff to track commitments, calculate balances, and plan expenditures and that DPH has not met these requirements. As a result, DPH has not accurately accounted for revenue from ongoing loan repayments into the fund, amounting to \$260 million in unexpended loan capacity. The EPA states that California needs \$39 billion in capital improvements in order to ensure safe drinking water to all Californians through 2026.

Public Health Investment

As described in the beginning of the health section of this report, and reflected in the Assembly Democratic Caucus's 2014-15 Blueprint for a Responsible Budget, a renewed investment should be made in California's public health infrastructure. California's investment in public health traditionally has been paltry at best, and nevertheless experienced a drastic decline over the past five years. The following table provides an incomplete list of programs (primarily, though not entirely, at DPH) that experienced either reduced or eliminated funding within the past few years, and approximate reduction amounts for those programs:

Public Health Program Reductions	
Program	Reduction (In Millions)
Early Mental Health Initiative	\$15
Maternal, Child, Adolescent Health Programs (Black Infant Health, Adolescent Family Life)	\$41
Dental Disease Prevention Program	\$3
Asthma Public Health Initiative	\$1
Injury Control	\$10
Lab Aspire (Lab Training) Program	\$2
School Health Centers	\$10
HIV/AIDS Programs	\$86

Other Key Provisions – Department of Public Health 2014-15

- ***AIDS Drug Assistance Program (ADAP) Estimate.*** The proposed budget includes a current year increase in ADAP funding authority of \$12.7 million over the 2013 Budget Act. The budget also proposes a \$3.3 million increase in funding authority for ADAP in the budget year.
- ***Women, Infants, and Children Program (WIC) Estimate.*** The proposed budget includes a \$76.6 million decrease in current year expenditure authority as compared to the 2013 Budget Act. For the budget year (2014-15), the budget proposes a \$67.4 million decrease in expenditure authority.
- ***Genetic Disease Screening Program (GDSP) Estimate and Fee Increase.*** The budget proposes a 2014-15 increase in expenditure authority of \$907,000, attributable to a proposed \$45 fee increase in the Prenatal Screening Program. The proposed fee increase would bring the total fee to \$207. The DPH explains that the fee increase is necessary to correct for the historic overstatement of caseload and inadequate fee revenue in recent years leading to insufficient funding to cover program costs.
- ***Licensing and Certification Program (L&C) Estimate.*** The L&C estimate for 2014-15 includes an increase in expenditure authority of \$1.9 million reflecting proposals described below.

- **L&C Evaluation Project.** DPH requests \$1.4 million (one-time Internal Departmental Quality Improvement Account) to expand the Licensing and Certification Program Evaluation project. This project includes a contractor to evaluate ways to improve internal business practices and quality improvement efforts to achieve timely completion of both state and federal workload, in order to ensure that the department meets federal Center for Medicare & Medicaid Services benchmarks.
- **L&C Federal Certification Standards.** DPH requests expenditure authority of \$201,000 in 2014-15 to contract with the University of California Davis to conduct independent research and analysis on the extent to which the federal certification standards are or are not sufficient as a basis for the state's licensing standards, as required by SB 534 (Hernández), Chapter 722, Statutes of 2013.
- **Office of Health Information Integrity.** DPH requests authority to transfer three positions and \$251,000 from the California Office of Health Information Integrity (within the Health & Human Services Agency) to DPH Licensing and Certification in order to improve efficiency by combining the authority and resources of two existing programs both charged with enforcing medical privacy violations.
- **Infant Botulism Contract Conversion.** DPH requests authority to convert contract positions to two permanent state positions, thereby reducing expenditure authority by \$46,000 (Infant Botulism Treatment and Prevention Fund). These positions will provide will support the Infant Botulism Treatment and Prevention Program.
- **Infant Botulism Resource Request.** DPH requests increased expenditure authority of \$3 million in 2014-15 and \$951,000 in 2015-16 in the Infant Botulism Prevention and Treatment Fund to sustain statutorily required production, distribution, regulatory compliance, and other activities for the DPH public service orphan drug BabyBIG®
- **SNAP-Ed Contract Conversion.** The DPH Nutrition Education and Obesity Prevention Branch requests authority to convert personal service contract positions into 45 full-time permanent state positions. This contract expires on September 30, 2014 and is funded by the United States Department of Agriculture through the California Department of Social Services for the Supplemental Nutrition Assistance Program for Education (SNAP-Ed). This contract currently is with the Public Health Institute for \$20 million per year for five years, and funds 70 positions.
- **Health in All Policies Task Force.** DPH requests \$458,000 (special funds, federal funds, and reimbursements) and 4.0 permanent positions for the Health in All Policies Task Force. This Task Force was initially staffed by the University of California San Francisco, and then the Public Health Institute, with financial support from The California Endowment. Subsequently, financial support for the Task Force has been provided by the Kaiser Foundation and the American Public Health Association.
- **Tobacco Control Program Reductions.** The proposed 2014-15 budget reflects a decrease of \$2.7 million Proposition 99 Health Education Account funding for the California Tobacco Control Program, due to reduced revenues. This includes a \$1.4 million decrease for the Media Campaign and a \$1.3 million decrease for competitive grants.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) is the lead agency overseeing and managing the state's system of mental hospitals. The DSH seeks to ensure the availability and accessibility of effective, efficient, and culturally competent services. DSH activities and functions include advocacy, education, innovation, outreach, understanding, oversight, monitoring, quality improvement, and the provision of direct services.

A New Department. The Governor's 2011 May Revision first proposed the elimination of the former Department of Mental Health (DMH), the creation of the new DSH, and the transfer of Medi-Cal and other community mental health programs to the DHCS. The 2011 Budget Act approved of just the transfer of Medi-Cal mental health programs from the DMH to the DHCS. In 2012, the Governor proposed, and the budget adopted the full elimination of the DMH and the creation of the DSH. All of the community mental health programs remaining at the DMH were transferred to other state departments as part of the 2012 budget package. The budget package also created the new DSH which has the singular focus of providing improved oversight, safety, and accountability to the state's mental hospitals and other psychiatric facilities.

State Hospitals. California has five state hospitals and three prison-based psychiatric programs that treat people with mental illness. Approximately 92 percent of the state hospitals' population is considered "forensic," in that they have been committed to a hospital by the criminal justice system. The state hospitals are as follows:

- **Atascadero (ASH).** ASH is located on the central coast. It is an all-male, maximum security, forensic facility (i.e., persons referred by the court related to criminal violations).
- **Coalinga (CSH).** Located in the City of Coalinga, CSH is the newest state hospital, opened in 2005, and treats forensically committed and sexually violent predators.
- **Metropolitan (MSH).** Located in Norwalk, MSH serves individuals placed for treatment pursuant to the Lanterman-Petris-Short Act (civil commitments), as well as court-ordered penal code commitments.
- **Napa (NSH).** Located in the City of Napa, NSH is a low-to-moderate security state hospital.
- **Patton (PSH).** PSH is located in San Bernardino and cares for judicially committed, mentally disordered individuals.
- **Vacaville & Salinas Valley Psychiatric Programs.** These programs are located within state prisons.
- **Stockton Psychiatric Program.** This is the newest facility that began operation in July of 2013, serving 432 High Custody/Level IV inmates/patients at the intermediate level of care, within the California Health Care Facility in Stockton.

Cost Over-Runs. Over the past several years, state hospital costs had been rising at an alarming rate, and substantial current year deficiencies had become the norm and even expected from year to year. For example, in the 2010-11 FY, the deficiency rose from \$50 million to \$120 million and the then-DMH staff could not explain why. In general, the department lacked any clear understanding of what the major cost drivers were and how to curb or stabilize costs in the system. In 2011, DMH leadership facilitated and oversaw an in-depth exploration and analysis of state hospital costs, resulting in a lengthy report that is available on the department's website. The research team identified the following system-wide problems/cost drivers: increased patient aggression and violence; increased operational costs and significant overspending; inadequate data tracking and reporting systems; inflexible treatment models; and redundant staff work.

Based on the report described above, in 2012 the Administration proposed a comprehensive list of reforms, to reverse the rising cost trend, which addressed three stated goals: 1) improve mental health outcomes; 2) increase worker and patient safety; and, 3) increase fiscal transparency and accountability. Perhaps the most significant of these proposed reforms was the reduction of 600 positions from throughout the state hospital system. Of these 600 positions, 230 were vacant while 270 were filled. In addition to the reduction in positions, the 2012 budget package included key changes in the following areas:

1. Modified mail services, streamlined documentation, and reduced layers of management;
2. Flexible staffing ratios, focusing on front-line staff, and redirecting staff to direct patient care;
3. New models for contracting, purchasing, and reducing operational expenses; and,
4. Elimination of adult education. The Legislature strongly objected to the elimination of adult education in the state hospitals, but was unsuccessful in protecting it.

DSH Budget

The Governor's proposed 2014-15 budget includes total funds of \$1.6 billion dollars, of which nearly \$1.5 billion is General Fund. The difference is primarily in the form of "reimbursements" from counties which pay the state hospitals for civil commitments. The proposed 2014-15 budget is a modest 1.4 percent increase over current year funding.

DEPARTMENT OF STATE HOSPITALS					
<i>(Dollars in Thousands)</i>					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$1,274,968	\$1,475,926	\$1,497,970	\$22,044	1.5%
CA State Lottery					
Education Fund	74	91	91	0	0
Reimbursements	117,910	127,560	127,560	0	0
Total Expenditures	\$1,392,952	\$1,603,577	\$1,625,621	\$22,044	1.4%
Positions	9,715.2	10,871.7	11,234.0	362.3	3.3

Major Provisions – Department of State Hospitals 2014-15

- ***Incompetent to Stand Trial Waitlist.*** The budget proposes \$7.87 million General Fund for the current year (2013-14) and \$27.8 million General Fund in the budget year to increase bed capacity by 105 beds to address the waitlist specific to "Incompetent to Stand Trial (IST)" patients. DSH is experiencing a significant increase in patient referrals from counties for IST patients. A specific increase has occurred in Orders to Show Cause, which are issued by county courts in an effort to expedite admissions for IST patients into state hospitals. Non-compliance with these orders puts the DSH at risk for contempt of court. Therefore, the DSH is proposing three new units with 35 beds each, anticipating activation of the first unit in March, 2014, the second in May, 2014, and the third in July, 2014. DSH proposes to use savings realized from the delays in the activation of the Stockton facility for the current year costs.
- ***Salinas & Vacaville Psychiatric Programs.*** The budget includes \$26.3 million General Fund to keep 137 beds active at Salinas Valley and Vacaville Psychiatric Programs to serve "Coleman" patients during the activation of the new California Health Care Facility in Stockton. This proposal results from the following: 1) the DSH expected to complete the migration of patients to Stockton by the end of 2013, however this has not been completed as a result of great difficulty filling the psychiatry staff classifications; 2) there has been a steady increase in the rate of Coleman referrals through 2013; and 3) the DSH indicated in 2013 that a higher level of staffing should be provided at Salinas and Vacaville. DSH has thus far been unable to explain the increase in Coleman referrals from the California Department of Corrections and Rehabilitation (CDCR), but states that they are working with CDCR to gain this understanding. The DSH also states that it will update the number of beds needed (i.e., this request) for the budget year (2014-15) in the May Revision.
- ***Personal Duress Alarm System.*** The budget proposes \$8 million General Fund to conclude implementation of the new Personal Duress Alarm System at all state hospitals.
- ***New Short-Term Housing Units.*** The budget proposes \$1.5 million General Fund to design and plan for specialized short-term housing units at most state hospitals, totaling approximately 44 new beds.
- ***Patient Management Unit.*** The budget includes \$1.1 million General Fund to establish a Patient Management Unit to centralize admissions and transfers of patients throughout the state hospitals system. Generally, the DSH is in the process of implementing various policy reforms aimed at transitioning the state hospitals to a coordinated, singular system of hospitals, from the way it has operated historically as a collection of hospitals that operate independently from one other. One of the consequences of this lack of coordination has been an inefficient system of patient placement that leads to delays and often inappropriate placements. Therefore, DSH proposes to create this unit to ensure: 1) timely access to in-patient care; 2) placement in the most appropriate clinical settings based on treatment and security needs; 3) timely resolution to placement issues; and 4) cost-effective utilization of hospital beds and staffing resources.

Other Key Provisions – Department of State Hospitals 2014-15

- **Infrastructure Maintenance.** The Budget includes \$10 million for deferred infrastructure maintenance at state hospitals.
- **Third Party Collections.** The DSH is requesting 15.0 two-year limited term positions and \$1.9 million General Fund (in the form of reimbursements that result from successful third-party payer collections, and therefore not a new General Fund appropriation) to consolidate functions related to billing and collection of third party resources that are not performed by the Department of Developmental Services. The DSH plans to implement a more rigorous collection process, claims resolution process, and technical training for state hospital billing staff.
- **Cal-OSHA Standards.** The DSH requests \$502,000 (General Fund) and 5.0 two-year limited term positions to establish statewide support for compliance with the Department of Occupational Safety and Health (Cal-OSHA) standards. DSH proposes to put one position in each of the five state hospitals to implement improvements.
- **Medical Grade Network.** The DSH is requesting 2.0 permanent positions and \$7.4 million General Fund in 2014-15, and \$2.3 million General Fund (\$1.5 million on-going) for 2015-16 to implement the Medical Grade Network project to add foundational infrastructure to the DSH inter-hospital network. The DSH states that this is necessary to minimize the risk of disruption to clinical operations, patient care, and to increase information security for health data.
- **Capital Outlay.** The DSH proposes the following capital outlay projects: 1) \$14.5 million to upgrade security fencing at Patton; 2) \$325,000 for seismic upgrades at Atascadero; 3) \$191,000 for security fencing at Napa; and 4) \$712,000 for fire alarm upgrade at Metropolitan.

DEPARTMENT OF MANAGED HEALTH CARE

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system through: 1) administration and enforcement of California's HMO patient rights laws; 2) operation of a 24-hour-a-day Help Center; and, 3) licensing and oversight of all HMOs in the state.

Formerly within the Business, Transportation, and Housing Agency, AB 922 (Monning), Chapter 552, Statutes of 2011, transferred the DMHC to the Health and Human Services (HHS) Agency effective January 1, 2012. Chapter 552 also removed the Office of Patient Advocate (OPA) from DMHC and established it as an independent entity under the HHS Agency effective July 1, 2012. The OPA offers information to consumers on choosing health plans, rankings of health plans and medical groups, and educates consumers about patient rights and responsibilities.

Network Capacity & Plan Oversight. The significance of the role, and workload, of this department can be expected to increase substantially over the next few years as a result of thousands of Californians enrolling in managed care plans for the first time. This increase in managed care is a result of several state initiatives and the ACA. Specifically, in 2011, the state transitioned approximately 350,000 seniors and persons with disabilities from fee-for-service Medi-Cal into Medi-Cal managed care. In 2012, budget trailer bill included the Coordinated Care Initiative (CCI), which will result in the transition of hundreds of thousands of "dual eligibles" from fee-for-service Medi-Cal into managed care. The CCI also transitions a range of Medi-Cal long-term care benefits into managed care for the first time. 2012 also brought the approval of the transition of nearly a million children in the Healthy Families Program into Medi-Cal, thereby requiring network assessment work by DMHC in preparation for the transition, as well as increased oversight of Medi-Cal's dental managed care plans in Los Angeles and Sacramento. Finally in 2012, the budget trailer bill gave the DHCS authority to seek managed care contracts for California's 28 remaining fee-for-service counties. In 2013, under the auspices of the ACA, the Legislature adopted and the Governor signed legislation expanding the Medi-Cal program, beginning January 1, 2014. This expansion can be expected to result in the enrollment of another 1.4 million Californians. Finally, the ACA, through California's health benefits exchange (Covered California), will result in millions more Californians gaining managed care coverage in the private market.

Premium Rate Review. The Affordable Care Act (ACA) directs states to establish a formal process for the annual review of health insurance premiums to protect consumers from unreasonable rate increases. In response, SB 1163 (Leno), Chapter 661, Statutes of 2010, was signed into law. As a result of the ACA and SB 1163, Knox-Keene licensed full-service health plans are now required to file premium rate data for their individual, small employer and large employer products with the DMHC, which is required to review these for unreasonable premium rate increases.

DMHC Budget

The DMHC receives no General Fund and is supported primarily by an annual assessment on each HMO. The annual assessment is based on the department's budget expenditure authority plus a reserve rate of 5 percent. The assessment amount is prorated at 65 percent and 35 percent to full-service and specialized plans respectively. The amount per plan is based on its reported enrollment as of March 31st of each year. The Knox-Keene Act requires each licensed plan to reimburse the department for all its costs and expenses.

As summarized in the table below, the Governor's 2014-15 Budget proposes a modest increase of \$1.9 million (3.4%) in the Department's overall budget.

DEPARTMENT OF MANAGED HEALTH CARE (Dollars In Thousands)					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Federal Trust Fund	4,329	1,749	75	(1,674)	(95.7)
Managed Care Fund	40,671	51,432	55,485	4,053	7.8
Reimbursements	1,066	3,832	3,412	(420)	(10.9)
Total Expenditures	\$46,066	\$57,013	\$58,972	\$1,959	3.4%
Positions	288.6	370.5	397.3	26.8	7.3

Major Provisions – Department of Managed Health Care 2014-15

The Governor's proposed budget does not include any major policy or fiscal proposals related to this department, however, the DMHC will continue to play a significant role in both the implementation of the ACA as well as in the various transitions of large groups of people into Medi-Cal managed care, as reflected in the resource requests from the DMHC described below.

Other Key Provisions – Department of Managed Health Care 2014-15

- **Information Technology.** The DMHC is requesting 2.0 positions and savings of \$500,000 in 2014-15 and ongoing to provide information technology services performed by contracted vendors for the Customer Relationship Management system. This request includes the redirection of existing contract resources to fund the 2.0 positions.
- **Individual Market Reforms.** The DMHC is requesting 13.5 positions and \$1.5 million for 2014-15 and 19.0 positions and \$2 million for 2015-16 and ongoing to address the increased workload resulting from the implementation of SB 2 X1 (Hernández), Chapter 2, Statutes of 2013-14 First Extraordinary Session on individual market reforms contained in the ACA.
- **Medi-Cal Expansion.** The DMHC is requesting 18.0 positions and \$2.4 million for 2014-15 and \$2.3 million for 2015-16 and ongoing to address increased workload resulting from implementation of AB 1 X1 (J.Perez), Chapter 3, Statutes of 2013-14 First Extraordinary Session, which implements the Medi-Cal expansion made possible by the ACA.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT

The Office of Statewide Health Planning and Development (OSHPD) develops policies, plans and programs to meet current and future health needs of the people of California. Its programs provide health care quality and cost information, ensure safe health care facility construction, improve financing opportunities for health care facilities, and promote access to a culturally competent health care workforce.

Mental Health. The 2012-13 budget eliminated the Department of Mental Health (DMH) by creating a new Department of State Hospitals to oversee the state's mental hospitals and by shifting all remaining DMH programs to other state departments. As a part of this reorganization, the Workforce, Education and Training (WET) program (a component of the Mental Health Services Act/Proposition 63) was transferred to OSHPD. The WET provides funding to increase the capacity of the mental health workforce. Even prior to this program transfer, OSHPD administered the Mental Health Loan Assumption Program (MHLAP). The MHLAP awards grants to mental health practitioners working in the public mental health system in hard to fill or retain positions.

AB 1467 (Committee on Budget), Chapter 23, Statutes of 2012, requires OSHPD to develop a Five-Year WET Plan. The Five-Year Plan must be informed by an evaluation of the relative efficacy of current state-level WET strategies and must include objectives to establish, expand, and/or promote the following: high school, university and post-secondary education pathways; scholarships, loan forgiveness and stipends for current and prospective public mental health system employees; regional partnerships; psychiatric residency programs; staff training curriculum; and the employment of consumers and family members in the public mental health system. The Five-Year Plan must be developed pursuant to a stakeholder process, be approved by the California Mental Health Planning Council, and is due April 1, 2014.

As approved in the 2013 budget package, as a component of President Pro Tem Steinberg's Investment in Mental Health Wellness Initiative, the 2013-14 OSHPD budget includes \$2 million in MHSA funds to provide training in the areas of crisis management, suicide prevention, recovery planning, targeted case management and related functions, and to facilitate employment of Peer Support classifications. OSHPD has met with stakeholders and released a call for proposals in December, 2013.

Seismic Safety. One of OSHPD's responsibilities is to implement the state's hospital seismic safety requirements. The Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983 established a seismic safety building standards program under OSHPD's jurisdiction for hospitals built on or after March 7, 1973. Numerous pieces of legislation since then have amended the Alquist Act, increasing OSHPD responsibilities and modifying seismic safety requirements and deadlines for hospitals.

Most recently, SB 90 (Steinberg), Chapter 19, Statutes of 2011, sought to respond to the fiscal challenges facing many hospitals and the resulting difficulty for them to meet the current seismic deadline of 2013, thereby facing the real possibility of closure. SB 90 authorized OSHPD to grant hospitals an extension of up to seven years beyond the 2013 deadline if specific milestones and public safety conditions were met. Hospitals that applied for an SB 90 extension were granted an automatic two-year administrative extension and OSHPD is still processing the extension applications.

OSHPD states that 411 acute care hospital buildings remain in "Structural Performance Category 1," (the highest risk category, at risk of collapsing in an earthquake), out of an original inventory of 1,300 buildings. Hence, there has been a 69 percent reduction in the number of buildings in this highest-risk category. Put another way, given that some of these buildings have been demolished or otherwise removed from service, and new buildings built, 85 percent of the current inventory of acute care hospital buildings meet Structural Performance Category 2 standards or higher, meaning that, at a minimum, they are not at risk of collapse, though services may not be available in these buildings.

OSHPD Budget

The OSHPD's proposed 2014-15 budget is summarized in the table below. Overall expenditures are proposed to decrease by \$30.5 million (17 percent), primarily reflecting changes to WET program funds, the history of which is described below this chart. This reduction also reflects various grant funding that decreases over time.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT					
<i>(Dollars In Thousands)</i>					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$74	\$74	\$0	0%
Hospital Building Fund	45,766	57,897	57,822	(75)	(.13)
Health Data & Planning Fund	25,405	29,057	32,044	2,987	10.3
Federal Trust Fund	1,434	1,504	1,444	(60)	(3.9)
Reimbursements	363	8,153	7,860	(293)	(3.6)
Special Funds	(2,127)	27,202	20,200	(7,002)	(25.7)
Mental Health Services Fund	20,957	52,350	26,291	(26,059)	(49.7)
Total Expenditures	\$91,798	\$176,237	\$145,735	(\$30,502)	(17.3%)
Positions	445.1	476.6	479.6	3	0.6

- **WET Funding history.** The 2014-15 Governor's Budget reflects a \$26,059,000 decrease from 2013-14 as a result of one-time appropriations and carryovers that were included in 2013-14. The following shows the reconciliation from the 2013-14 to the 2014-15 budget which includes adjustments for a budget change proposal and pro-rata increase. Furthermore, OSHPD is requesting authority to extend the appropriation of \$102,000 in unexpended WET funds through 2017-18 for WET programs.

Description of WET funding	Amount (Dollars In Thousands)
FY 2013-14 Budget	\$52,350
FY 2014/15 One-Time Budget Change Proposal #001	102
FY 2014/15 Pro-Rata Increase Adjustment	254
Less FY 2013/14 WET and MHLAP BCP Adjustments ^{1/}	-26,219
Less FY 2013/14 WET Consultant BCP Adjustment	-196
FY 2014/15 Budget ^{2/}	\$26,291

^{1/}Includes FY 2013-14 Budget Change Proposal 001 and May Finance Letter 002 adjustments approved during the FY 2013/14 budget cycle.

^{2/}Unspent or unencumbered WET funds will be available until FY 2017-18.

Major Provisions – Office of Statewide Health Planning & Development 2014-15

The Governor's proposed 2014-15 budget contains no major policy or fiscal changes to this department.

Other Key Provisions – Office of Statewide Health Planning & Development 2014-15

- **Health Care Reform.** OSHPD is requesting \$355,000 (California Health Data and Planning Fund) in expenditure authority to make permanent 4 previously limited-term positions, which expire June 2014. These positions are associated with the implementation of health care reform efforts. Specifically, this would make permanent 3 Staff Services Analysts that are responsible for proactive designations of Health Professional Shortage Areas, Medically Underserved Areas and Medically Underserved Populations. One Associate Government Program Analyst would also be made permanent, a position which is responsible for the implementation of the health care reform work plan.
- **Hospital Performance Data.** OSHPD is requesting \$652,000 (2014-15) and \$636,000 (on-going) in California Health Data and Planning Fund expenditure authority for 2.0 new permanent positions to handle the workload associated with a statutory mandate to conduct periodic audits of hospitals' data related to outcome reports produced by OSHPD. This workload has increased substantially over the past several years; specifically, the number of reports increased 500 percent between 2008 and 2010. OSHPD expects these positions to ensure more accurate reporting of hospital performance in the areas of: risk-adjusted mortality, hospital-acquired infections, surgical and medical complications, rates of hospital readmissions, treatment errors, and patient safety incidents.
- **Song-Brown Health Care Workforce Training Program.** OSHPD is requesting \$2.84 million (California Health Data Planning Fund, CHDPF) per year for three years in expenditure authority to expand its Song-Brown Health Care Workforce Training Program to fund primary care residency programs and to expand program eligibility to teaching health centers. The request also includes 1.0 three-year limited term position and \$106,000 in CHDPF expenditure authority to manage the workload. OSHPD expects this expansion to increase the number of primary care residents specializing in internal medicine, pediatrics as well as obstetrics and gynecology, in order to be responsive to the implementation of health care reform.

EMERGENCY MEDICAL SERVICES AUTHORITY

The Emergency Medical Services Authority's (EMSA) mission is to coordinate emergency medical services (EMS) statewide; develop guidelines for local EMS systems; regulate the education, training, and certification of EMS personnel; and coordinate the state's medical response to any disaster. The EMSA is comprised of the following three divisions:

- **Disaster Medical Services Division.** The Disaster Medical Services Division coordinates California's medical response to disasters. It is the responsibility of this division to carry out the EMS Authority's mandate to provide medical resources to local governments in support of their disaster response, and coordinate with the Governor's Office of Emergency Services, Office of Homeland Security, California National Guard, California Department of Public Health, other local, state, and federal agencies, private sector hospitals, ambulance companies and medical supply vendors to improve disaster preparedness and response.
- **EMS Personnel Division.** The EMS Personnel Division oversees licensure and enforcement functions for California's paramedics, personnel standards for pre-hospital emergency medical care personnel, trial studies involving pre-hospital emergency medical care personnel, first aid and CPR training programs for child day care providers and school bus drivers.
- **EMS Systems Division.** The EMS Systems Division oversees EMS system development and implementation by the local EMS agencies, trauma care and other specialty care system planning and development, EMS for Children program, California's Poison Control System, emergency medical dispatcher standards, EMS Data and Quality Improvement Programs, and EMS communication systems.

EMSA Budget

The department's proposed 2014-15 budget is summarized in the table below. Overall expenditures are proposed to increase very slightly by just \$213,000 in special funds and federal funds. The primary source of funding for this department is federal funds, which is included in the line below labeled "reimbursements," as those are federal funds that come through other departments first, namely the Departments of Health Care Services and Public Health.

EMERGENCY MEDICAL SERVICES AUTHORITY					
<i>(Dollars in thousands)</i>					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$6,692	\$6,771	\$6,771	0	0%
Federal Trust Fund	1,511	2,625	2,678	53	2.0
Reimbursements	11,276	14,801	14,801	0	0
Special Funds	3,351	3,972	4,132	160	4.0
Total Expenditures	\$22,830	\$28,169	\$28,382	213	0.75%
Positions	67.4	64.2	65.2	1	1.5

Major Provisions – Emergency Medical Services Authority 2014-15

Due to the state's severe recession and fiscal crisis, substantial reductions were made over the past several years to the state's emergency preparedness infrastructure, most of which falls under the authority of the EMSA. Despite these reductions, the Governor's proposed 2014-15 budget contains no major policy or fiscal changes to this department. It would be extremely helpful and timely to have an analysis of the state's remaining emergency preparedness infrastructure and capacity. The following describes the recent history of a few of the key components of the state's emergency medical response infrastructure:

Mobile Field Hospitals (MFHs). Since 2006, the EMSA has maintained three MFHs, each of which consists of approximately 30,000 square feet of tents, hundreds of beds, and sufficient medical supplies to respond to a major disaster in the state, such as a major earthquake in a densely populated area. The 2006 Budget Act allocated \$18 million in one-time funds for the purchase of the MFHs and \$1.7 million in on-going General Fund funding for the staffing, maintenance, storage, and purchase of pharmaceutical drugs, annual training exercises, and required medical equipment for the MFHs.

The original amount budgeted for the pharmaceutical drug cache was \$23,000, which was later determined to be woefully inaccurate and inadequate. Recognizing that the value of the MFHs is quite limited in the absence of sufficient pharmaceutical supplies, the Governor put forth requests in 2009 and 2010 to augment the MFH budget by \$448,000 General Fund, however the Legislature denied both requests. In 2011, the Governor instead proposed, and the Legislature approved, to eliminate the \$1.7 million in on-going support for the MFHs.

There are on-going storage and maintenance costs for the MFHs. The EMSA explored various potential shared responsibility arrangements with various non-state entities, such as the Red Cross, in order to find an affordable way for the state to continue to have access to the MFHs in a major disaster. Ultimately, the EMSA did the following: 1) consolidated the MFHs into two storage facilities in order to reduce warehouse space costs; and 2) entered into a 1-year, no-cost contract with Blu-Med (a subsidiary of Alaska Structures) to continue providing minimal maintenance for the MFHs, at no cost to the state, with the stipulation that Blu-Med could rent out one or two MFHs to any state or country dealing with a major disaster. Since then, the contract with Blu-Med ended and EMSA cobbled together sufficient resources to cover maintenance costs over the past couple of years, including through a separate DPH re-appropriation of Hospital Preparedness Program (federal funds) funds which are currently covering the maintenance costs.

All three MFHs are now stored in Sacramento at no cost, as Food Link, a non-profit organization, is now donating storage space indefinitely. EMSA has sufficient funding, temporarily, to maintain the supplies in just one of the hospitals, which means that one of the three can be deployed and utilized within 72 hours. EMSA expects this funding to diminish in the 2015 federal fiscal year.

Medical Stockpiles (Department of Public Health). In 2006-07, the state purchased a large supply of respirators, ventilators, and antivirals to be used in case of a natural disaster, act of terror or other public health emergency. In 2007-08, \$8.5 million was re-appropriated to the DPH specifically to store and maintain that stockpile. That re-appropriation expired in FY 2010-11. In 2011, the Governor proposed, and the Legislature approved, of not providing the DPH with new General Fund of \$4.1 million that they would need to continue storing and maintaining the stockpile.

Poison Control Centers. The State's system of poison control centers came close to being eliminated more than once during the past few years due to General Fund reductions to the program. The Poison Control Centers are a statewide network of experts that provide free treatment advice and assistance to people over the telephone in case of exposure to poisonous or hazardous substances. Poison Control Centers provide help and information to both the public and health professionals and is accessible, toll-free, 24 hours a day, 7 days a week, and every day of the year. The system maintains interpreting services in over 100 languages. All fifty states have poison control systems.

The program was initially established in 1987 in ten different hospitals, which operated independently and served different geographic regions, without guidance or regulation by the state. The system was eventually consolidated into seven regional poison centers required to meet minimum operational standards. In 1997, a new statewide system was created to provide uniform poison control services, and EMSA contracted with the University of California San Francisco to administer the program.

The General Fund support for the program has been reduced from \$6.9 million in 2007-08 to \$2.95 million in 2009-10 and each year since then. In order to avoid closure, in 2009 the EMSA successfully sought out federal matching funds under the federal Children's Health Insurance Program (CHIP), which it has received since 2009. Without this federal funding (which is matched with General Fund), the Poison Control Centers would have ceased operations in January 2010. The EMSA works with the Department of Health Care Services to secure these federal CHIP funds.

Poison Control Centers Funding 2010-2011 through 2014-15	
General Fund	\$2,950,000
Federal (CHIP) Funds	\$5,300,000
Medi-Cal Reimbursements	\$800,000*
Federal Stabilization Grant to UCSF	\$1,800,000*
TOTAL (ALL FUNDS)	\$10,850,000

**Approximate funding amounts*

Other Key Provisions – Emergency Medical Services Authority 2014-15

- **Epinephrine Auto Injector Training and Certification Program.** The EMSA is requesting 1.0 two-year limited term position and \$135,000 (Specialized First Aid Training Approval Fund) beginning July 1, 2014 to address the new workload associated with the development and implementation of the Epinephrine Auto Injector Training and Certification Program created through SB 669 (Huff), Chapter 725, Statutes of 2013. SB 669 authorizes off-duty pre-hospital emergency medical care personnel and lay rescuers to obtain and use an epinephrine auto-injector (Epi-Pen) in emergency situations after receiving certification and training. The bill also requires EMSA to approve of authorized training providers and to establish and approve minimum standards for training and certification on the use and administration of Epi-Pens. Finally, SB 669 authorizes EMSA to impose a fee on training providers for the review, approval and certification of their training programs. The training program and certification revenues will not be collected until July 1, 2015, and therefore the

EMSA requests a \$135,000 loan from the Emergency Medical Services Personnel Fund to cover initial costs.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) was created in 1989 to administer programs that would provide health care coverage through private health plans to certain populations that lacked health insurance and for whom insurance was not readily available. Since 1997, MRMIB's primary focus and workload has been the operation of the Healthy Families Program, which ceased serving children at the end of 2013. The MRMIB still operates the following three programs:

1. **Major Risk Medical Insurance Program (MRMIP).** MRMIP provides health insurance to Californians unable to obtain coverage in the individual health insurance market, historically because of pre-existing conditions. Californians qualifying for the program participate in the cost of their coverage by paying premiums. Proposition 99 (tobacco tax) funds are used to supplement premiums paid by participants to cover the cost of care in MRMIP. MRMIP was the state's pre-existing conditions program (PCIP) prior to the passage of the federal Affordable Care Act (ACA), which included creation of the federal PCIP.
2. **Access for Infants and Mothers (AIM).** AIM provides low cost insurance coverage to uninsured, low-income pregnant women. The subscriber cost is 1.5 percent of their adjusted annual household income. AIM is supported with Proposition 99 funds, as well as federal funds to supplement the participant's contribution to cover the cost.
3. **County Children's Health Initiative Matching Fund Program (CHIM).** CHIM offers counties the opportunity to use local funds to obtain federal matching funds for their Healthy Children's Initiatives, which provide health coverage to uninsured children. Currently, San Francisco, San Mateo, and Santa Clara Counties participate in CHIM.

Healthy Families Program

The HFP was California's version of the federal Children's Health Insurance Program (CHIP). It provided subsidized health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who were not eligible for Medi-Cal but met citizenship or immigration requirements. A 65 percent federal match was obtained through a federal allotment (Title XXI funds). The program consistently served approximately 860,000 children. The 2012 budget package approved of the Governor's proposal to discontinue this program by transitioning all children in the program to Medi-Cal. This transition occurred in 2013 and all HFP children have been transitioned to Medi-Cal.

MRMIB Budget

The Governor proposes to eliminate MRMIB, as reflected in the proposed 2014-15 budget which is summarized in the table below. The substantial reductions that can be seen that occurred between 2012-13 and 2013-14 reflect the transition of all Healthy Families Program children to Medi-Cal, as well as the subsuming of the state's Pre-Existing Conditions Insurance Program (PCIP) by the federal government into the national program.

MANAGED RISK MEDICAL INSURANCE BOARD (Dollars In Thousands)					
Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$177,873	\$23,214	\$0	(\$23,214)	(100%)
Federal Trust Fund	580,156	110,728	0	(110,728)	(100)
Special Funds & Reimbursements	173,968	97,019	0	(97,019)	(100)
Federal Temporary High Risk Health Insurance Fund	519,002	119,243	0	(119,243)	(100)
Total Expenditures	\$1,451,999	\$350,204	\$0	(\$350,204)	(100%)
Positions	81.1	56.9	0	(56.9)	(100)

Major Provisions – Managed Risk Medical Insurance Board 2014-15

- MRMIB Elimination.** Through the proposed budget, the Governor proposes to eliminate MRMIB, and transfer its three remaining programs to the Department of Health Care Services (DHCS). The proposal assumes that \$177.6 million (\$1.2 million General Fund) in funding and 27.0 positions would transfer from MRMIB to DHCS. The other 29.9 positions that MRMIB expects to have during the current year will either transfer to DHCS in the current year (as a part of the Healthy Families transition to Medi-Cal), or they are positions that supported the state PCIP, a program created by the ACA that MRMIB was operating until 2013 when it was taken over by the federal government.

MENTAL HEALTH SERVICES OVERSIGHT & ACCOUNTABILITY COMMISSION

The Mental Health Services Oversight & Accountability Commission (MHSOAC) was established to provide oversight and accountability for the ***Mental Health Services Act (MHSA, Proposition 63)***, Adult and Older Adult System of Care Act and Children's MHSA. The MHSOAC's primary roles include: 1) oversight, review, accountability, and evaluation of projects and programs supported with MHSA funds; 2) ensure that services provided pursuant to the MHSA are cost-effective and in accordance with recommended best practices; 3) provide oversight and accountability for the public community mental health system; 4) review county innovation Program and Expenditure Plans, and 5) provide counties technical assistance in MHSA program plan development and to accomplish the purposes of the MHSA. The MHSOAC also advises the Governor and the Legislature regarding state actions to improve care and services for people with mental illness.

The MHSOAC was established in 2005 and is composed of 16 voting members who meet criteria contained in the MHSA. Among other functions, the MHSOAC seeks to:

1. Ensure that services provided, pursuant to the MHSA, are cost effective and provided in accordance with best practices;

2. Ensure that the perspective and participation of members and others with severe mental illness and their family members are significant factors in all of its decisions and recommendations; and
3. Recommend policies and strategies to further the vision of transformation and address barriers to systems change, as well as providing oversight to ensure funds being spent are true to the intent and purpose of the MHSA.

MHSA (Proposition 63) Background

The purpose of the MHSA is to expand mental health services to children, youth, adults and older adults who have severe mental illnesses or severe mental health disorders and whose service needs are not being met through other funding sources (i.e., funds are to supplement and not supplant existing resources). The MHSA imposes a one percent income tax on personal income in excess of \$1 million. These tax receipts are reconciled and deposited into the MHSA Fund on a "cash basis" (cash transfers) to reflect funds actually received in the fiscal year. The MHSA provides for a continuous appropriation of funds for local assistance.

With the exception of a maximum of 5 percent for state administration, the Act's funding is expended by counties for mental health services consistent with their approved local plans (3-year plans with annual updates) as well as the required five components of the MHSA which are:

- ***Community Services and Supports for Adult and Children's Systems of Care.*** This component funds the adult and children's systems of care established by the Bronzan-McCorquodale Act (1991). County mental health departments are to establish, through a stakeholder process, a listing of programs for which these funds would be used.
- ***Prevention and Early Intervention.*** This component supports the design of programs to prevent mental illnesses from becoming severe and disabling, with an emphasis on improving timely access to services for unserved and underserved populations.
- ***Innovation.*** The goal of this component is to develop and implement promising practices designed to increase access to services by underserved groups, increase the quality of services, improve outcomes, and promote interagency collaboration.
- ***Workforce Education and Training.*** This component targets workforce development programs to remedy the shortage of qualified individuals to provide services to address severe mental illness. Counties have 10 years to spend these funds.
- ***Capital Facilities and Technological Needs.*** This component addresses the capital infrastructure needed to support implementation of the Community Services and Supports, and Prevention and Early Intervention programs. It includes funding to improve or replace existing technology systems and for capital projects to meet program infrastructure needs.

MHSOAC Budget

The MHSOAC's funding is a component of the MHSA state administration funds, capped at 5 percent of MHSA revenue. The remaining state administration funds are appropriated to many different state departments for a variety of MHSA functions, the details of which are provided by the Department of Health Care Services. Total state administration funding for 2014-15 is proposed to be \$79.4 million, based on total MHSA revenue projected to be \$1.587 billion. The proposed MHSOAC 2014-15 budget is a modest increase over the current year budget, and the significant increase in funding between 2012-13 and 2013-14 reflects the MHSOAC's new responsibilities created through the President Pro Tem's 2013 Investment in Mental Health Wellness Initiative which provided \$54 million (\$32 million MHSA funds and \$22 million federal Medi-Cal) to fund 600 triage personnel in select rural, suburban and urban regions.

	MHSOAC <i>(Dollars In Thousands)</i>				
	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
Total Funds (Proposition 63)	\$6,850	\$62,310	\$62,948	\$638	1%
Positions	19	28.2	27	(1.2)	(4.2%)



HUMAN SERVICES

The mythology of California is that it provides a unique and plentiful opportunity for anyone who is willing to work hard to achieve their dreams. The "California Dream" experience is considered perhaps surpassing the iconic American Dream: bigger, glossier, and enduring. But California today, post Great Recession and at the cusp of the next wave of technology and innovation, is at a record low on a critical indicator -- poverty is at an all-time high, in fact, the worst in the United States, and the divide between the rich and the poor is as vast as it is deep.

The Stanford Center on Poverty and Inequality reports that California's poverty rate in 2011 was 22 percent, and its child poverty rate was markedly worse at 25.1 percent. One in every four, or over two million, children in the state lives in poverty, and many of these children live in deep poverty or in homelessness. This rate is almost 25 percent higher than California's child poverty rate in 2006, and higher than the national 2011 and 2012 child poverty number of 18 percent. Poverty is a fundamental problem for California and for the state's children.

Fortunately, attention to struggling families and the reality of poverty seems to have gained a recent foothold in national political and policy discourse, which coincides with a healthier budget outlook providing opportunities to grapple with this dire problem. What role can our state budget play in addressing poverty in California? How can the budget strengthen the safety net, and improve people's lives and children's future?

California's State budget, at \$155 billion, is only a small fraction of the State's overall \$2 trillion economy. But history shows that small investments can generate large returns in future years. Despite the State Government's small size, it serves as a powerful force in fighting poverty.

With last year's adoption of the Local Control Funding Formula, our K-12 system received worthy attention in addressing the school needs of low-income children. Other systems need to be made stronger to begin to turn the tide toward long-term prosperity for California's children and families living in poverty. Research from the Center on the Developing Child at Harvard University tells us that poverty creates "toxic stress" for children, impeding their educational success and fundamentally, adversely changing their life trajectories. "Ameliorating the impacts of poverty early in life can therefore have far-reaching effects on our national prosperity. These results complement emerging neuroscience and developmental research, which tell us that serious adversity early in life can weaken the architecture of the developing brain, generating consequences that reach well into adulthood." This research underscores the need to improve the social safety net and education together to make success possible for disadvantaged children. The safety net needs to be equally as strong as schools to make reaching the California Dream possible.

The Human Services area includes many of California's largest safety net and anti-poverty programs that serve vulnerable populations including children living in poverty, abused and neglected children, struggling parents and adults, the disabled, chronically sick, and aged. This program area has weathered multiple waves of significant reductions and restrictive program changes since 2007. Billions of dollars have been stripped from programs, the time allowed for

aid and grant amounts have been severely reduced, and services and provider networks have diminished. Context is critical for understanding these areas and where reinvestment is needed as the state gets back on its financial footing and considers where to use resources to achieve a social good.

Despite the reductions and current gaping needs, the social safety net has proved its worth and effectiveness. With the anniversary of the War on Poverty this year, there is increased recognition of what social service programs have done over the past 50 years to combat poverty and alleviate economic hardship for millions of Americans and Californians. According to the U.S. Census Bureau, safety net programs on average kept nearly 4 million Californians, including 1 million children, out of poverty between 2009 and 2011. For a longer look-back, safety net policies helped reduce the national poverty rate from 26 percent in 1967 to 16 percent in 2012, a decline of more than one-third.

Evidence suggests that small changes in income can make a big difference to the life trajectory of poor families. Research by MDRC found that a pilot program in Minnesota that increased cash benefits by twenty percent (between \$167 and \$391 per month) yielded 32 percent higher employment rates, 42 percent higher earnings, and 21 percent higher overall earnings than single-parent families that did not get the benefit. In contrast, a Harvard study found that a \$3000 annual reduction to family income resulted in a 17 percent lower productivity in adulthood. The evidence shows that big changes in poverty can be achieved for several hundred dollars a month, well within the capacity of the State's budget.

The Governor's proposed 2014-15 budget for the human services area is largely a "workload" budget, without major initiatives to reinvest in the programs that sustained, cumulatively, billions of dollars in reductions over the past six years during the Great Recession. While the budget provides for the implementation of Early Engagement components in the CalWORKs program to make up-front engagement with families stronger, the institution of these changes will happen a year and a half after the more restrictive 24-month clock went into effect (January 1, 2013) and income support for families with no or low income are still at historic lows given the realities of California's cost of living. In-Home Supportive Services (IHSS) recipients, who are by definition Medi-Cal or SSI/SSP eligible, are experiencing an eight percent reduction in service hours and consumers in the Developmental Services system have weathered dramatic waves of large-scale reductions that restricted provider networks, reduced service access, and created additional hardship for families.

The Assembly Blueprint for a Responsible Budget included key strategies that together have the potential to meaningfully lift hundreds of thousands of struggling families and their young children living in poverty to better standards of living, allowing these children a chance to break the cycle of poverty. The Blueprint's Child Poverty Proposal includes:

- ✓ Creation of a state Earned Income Tax Credit to strengthen the impact of paychecks for families living with the lowest income.
- ✓ Increasing the CalWORKs "Earned Income Disregard" allowing families to keep more of their earnings from work, allowing them to meet basic needs and spend more in the marketplace.
- ✓ Expansion, and potentially universalization, of subsidized employment and job training programs to better prepare and train Californians to join the workforce.
- ✓ Creation of a CalFresh "add-on" to provide an additional food benefit for California's poorest children.
- ✓ Providing a CalWORKs grant increase to bring this support closer to what it takes to obtain a decent quality of life given California's high cost of living.

The Assembly budget review process will include discussion on these topics as they relate to the future of California and making progress toward lifting more struggling families out of the depths of poverty and closer to the self-realization and success that is the California Dream.

Major Policy Issues the Assembly May Wish to Consider:

- Past budgets cumulatively reduced state resources the key anti-poverty programs of CalWORKs and SSI/SSP by \$4 billion. Inadequate income is one of several circumstances that can lead to toxic stress for young children. Success in school predicts a wide range of benefits to individuals and society, including increased lifetime earnings and decreased dependency on public services. The CalWORKs program serves over 1 million children in poverty, and children present about 75% of the overall caseload. Income support and the welfare to work program have both endured severe budgetary reductions. How can California's current budget and policy approach to CalWORKs, CalFresh, Supplemental Security Income/State Supplementary Payment (SSI/SSP), and other anti-poverty programs change the life trajectory for families and children receiving services?
- Consumers and providers in the IHSS program have weathered a series of program, rules, and eligibility changes over the past several years. A litigation settlement in 2013 repealed some of the major reduction that had been enjoined by the courts and imposed an eight percent reduction in hours, changing to a seven percent reduction on July 1, 2014. This reduction was intended to be mitigated by a home health assessment that would draw down additional federal dollars for replaced savings in the program. The new Fair Labor Standards Act rules around overtime and the Governor's proposal in response to prohibit IHSS overtime and create an emergency provider back-up system introduce a new policy and budget debate for the program's future. How can the Legislature balance the impact on consumers and the sustainability of the program's services with these new rules? What is the status of the home health assessment and how are consumers faring under the hours reduction?
- Past budgets cumulatively reduced state resources in the developmental disability (DD) system by \$1.5 billion. A portion of this was accomplished by development of new mechanisms that pulled down additional federal funds, but a significant proportion came from reduced services. The Assembly last year chose to reinvest \$12 million into the Early Start program for infants and toddlers, however the augmentation was not included in the final budget agreement. Advocates raise a myriad of concerns about programs needing additional support, challenging decision-makers to prioritize across varied programs. Identifying the highest priority needs and developing a vision for developmental services are the biggest questions in the DD area for government to consider.
- The Governor's budget includes proposals for positions and policy changes for both the Community Care Licensing program and the State Hearings Division. It is widely acknowledged that both areas experience backlogs in services and that both are critical for the proper oversight over vulnerable populations receiving services in California. More frequent inspections in licensing has been a long-sought objective for stakeholders. Proper resources for State Hearings to dispense with cases that are currently awaiting adjudication is a meritorious issue worthy of serious consideration.

For both or either of these state functions, what is the more appropriate strategy to provide the supports necessary for meaningful service-delivery that avoids other harms and adverse effects for clients placed in licensed facilities or as recipients of programs?

The state departments and public programs covered in this section include:

- ❖ Department of Social Services
 - California Work Opportunity and Responsibility to Kids (CalWORKs)
 - CalFresh, California's Supplemental Nutrition Assistance Program
 - In-Home Supportive Services (IHSS)
 - Supplemental Security Income/State Supplementary Payment (SSI/SSP)
 - Child Welfare Services and Foster Care
 - Community Care Licensing
 - Other DSS Program Areas
- ❖ Department of Developmental Services
- ❖ Department of Aging
- ❖ Department of Community Services and Development
- ❖ Department of Rehabilitation
- ❖ Department of Child Support Services
- ❖ Health and Human Services Agency
- ❖ Office of Systems Integration

DEPARTMENT OF SOCIAL SERVICES

Department Description

The stated mission of the Department of Social Services (DSS) is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department accomplishes its mission through the operation and oversight of a variety of programs that provide cash assistance, social services, disability evaluation, community care licensing, and other services.

Fiscal Overview. Due to the significant program areas within DSS, the major programs for this department have been broken out into separate sections within this report. By way of overview, this section simply presents the overall Department information.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$6,859,288	\$6,923,381	\$6,540,865	(382,516)	(5.5%)
Emergency Food Assistance Program Fund	596	426	588	162	38
Foster Family Home and Small Family Home Insurance Fund	343	-	-	-	-
Continuing Care Provider Fee Fund	1,293	1,337	1,283	(54)	(4)
Technical Assistance Fund	20,100	22,086	23,086	1,000	4.5
Certification Fund	1,558	1,682	2,095	413	2.5
Child Health and Safety Fund	4,382	7,463	5,383	2,080	2.8
State Children's Trust Fund	1,013	1,300	1,288	(12)	(0.9)
Federal Trust Fund	6,902,454	7,098,283	7,123,544	25,261	0.4
Reimbursements	4,469,350	4,663,904	5,605,442	941,538	20.2
Mental Health Facility Licensing Fund	391	-	-	-	-
Home Care Fund	-	-	1,472	1,472	100
Child Support Collections Recovery Fund	8,183	8,019	8,019	-	(100)
Child Welfare Services Program Improvement Fund	243	4,000	4,000	-	(100)
Safely Surrendered Baby Fund	55	90	102	12	13.3
Total Expenditures	\$18,269,249	\$18,731,971	\$19,317,167	585,196	3.1%
Positions	3,741.5	4,153.2	4,334.2	181	4.4

Individual major program sections for DSS are organized as follows:

- CalWORKs
- CalFresh
- In-Home Supportive Services
- Supplemental Security Income/State Supplementary Payment
- Child Welfare Services and Foster Care
- Community Care Licensing
- Other DSS Program Areas

CALWORKS

Program Description and Background. The California Work Opportunity and Responsibility to Kids (CalWORKs) program is California's version of the federal Temporary Assistance for Needy Families (TANF) program and is the state's main anti-poverty program, alongside CalFresh (formerly known as Food Stamps), offering a temporary basic needs benefit to families with children living in deep poverty. A family with no income currently receives a basic needs maximum grant of \$638 for a family of three in a high-cost county, for \$7,656 per year. The federal poverty level (FPL), recognized to be an outdated measure that doesn't take into account cost of living compared to the updated Supplemental/California Poverty Measure (CPM), is \$19,790 for a family of three. Deep poverty is defined as 50 percent of the federal poverty level (\$9,895), therefore the CalWORKs maximum grant is \$2,239 lower than the deep poverty threshold, placing families at 38.6 percent of the FPL.

CalWORKs was reengineered in the late-90s as part of "Welfare Reform" to change it from a mainly income support program to a program that could provide education, employment, and training programs to assist a family's movement to self-sufficiency. Components of CalWORKs include time limits on eligibility, work requirements, and supportive services, such as child care and help with transportation, to support program participation.

Total CalWORKs expenditures are \$6.9 billion (all funds, State General Fund is \$504 million)) in 2014-15. The amount budgeted includes \$5.3 billion for CalWORKs program expenditures (including grants, services, and child care) and \$1.6 billion in non-CalWORKs programs. These other programs qualify as maintenance of effort (MOE) countable expenditures for purposes of drawing down the federal grant (discussed below). These programs primarily include expenditures for Cal Grants, Department of Education child care, Child Welfare Services, Foster Care, Department of Developmental Services programs, the Statewide Automated Welfare System, California Community Colleges child care and education services, and the Department of Child Support Services.

California receives an annual \$3.7 billion TANF federal block grant. To receive TANF funds, California must provide an MOE of \$2.9 billion annually. State-only programs funded with state General Fund are countable towards the MOE requirement. Approximately 2.5 percent of assistance payments are county-funded.

The federally stated purposes for TANF include:

- "Assisting needy families so that children can be cared for in their own homes;
- Reducing the dependency of needy parents by promoting job preparation, work, and marriage;
- Preventing out-of-wedlock pregnancies; and,
- Encouraging the formation and maintenance of two-parent families."

The program serves all 58 counties in the state and is operated locally by county welfare departments. Generally, services are available to:

- Families with a child(ren) when one or both parents are in the home but the principal earner is unemployed.
- Families that have a child(ren) in the home who has been deprived of parental support or care because of the absence, disability, or death of either parent.
- Needy caretaker relatives of a foster child(ren).

Caseload. CalWORKs is largely a program that serves children living in poverty and deep poverty (below 50 percent of the poverty level). Of the more than 1 million recipients of the program, more than three out of four – 77 percent – are children under the age of 18. Almost 60 percent of all CalWORKs cases include children under six years of age.

Average monthly caseload is estimated to be 529,367 families in 2014-15, a 3.8 percent decrease over the 2013-14 caseload numbers.

The caseload experienced a large reduction in the years between the implementation of CalWORKs and its Welfare to Work (WTW) focus and the onset of the recent economic recession in 2007. Since onset of the Great Recession and the rise of unemployment, predictably, the caseload steadily increased and remained higher as unemployment persisted. The caseload is still affected by the continuing high levels of unemployment and by poverty rates in California being the highest in the nation. Recent program changes to reengage cases formerly exempt and to cut off families after two years of aid will affect the caseload trends at different times, some of these effects being felt now and some of which are still to come in the future in the absence of further program changes.

Eligibility Determination. If a family has little or no cash and needs housing, food, utilities, clothing, or medical care, they may be eligible to receive immediate, emergency short-term help, such as a once in a lifetime payment to avoid homelessness. Families that apply and qualify for ongoing assistance may receive aid each month to help pay for housing, food, and other basic living expenses. The county office will set up an interview with an eligibility worker to obtain facts and verify eligibility. Applicants must provide the county with proof of income and property, citizenship status, age, social security number, residence, shelter costs, work or school status, and other information. Similar information may be requested for all of the people in the home. Additionally, adult family members must also be fingerprinted and photo imaged.

Welfare to Work (WTW) and Income Support. At an eligibility interview, the county will advise applicants of the rules that must be met to be eligible for CalWORKs. Unless the applicant is not able to maintain employment due to disability, caring for an ill relative, age, or another reason, the recipient develops a (WTW) plan toward employment preparedness. Once eligible, the family will receive monthly checks from the county welfare department until the entire family or adults in the family are determined ineligible. Any income of the family is considered in calculating the amount of cash aid the family receives and reduces the amount received from the Maximum Aid Payment (MAP) level.

All WTW participants receive an orientation to the program and an appraisal of their education and employment background. Initially, most individuals receive job search services. Additional employment-related services are provided based on an individual's education and work history. Individuals may be assigned to:

- Unpaid work experience/preparation.
- Vocational training placements.
- Adult education or community college programs.
- Mental health counseling, substance abuse treatment, domestic abuse services and other activities necessary to assist recipients in obtaining employment.

In addition, program participants may be eligible for help with child care, transportation, and work-related or training-related expenses. Moreover, participants who find a job and are no longer eligible for welfare may continue to receive help with medical care and child care expenses. Unless exempt, applicants/recipients of CalWORKs are required to participate in WTW activities as a condition of receiving aid.

Current Work Requirements, Services, and Time Limits. An adult in a one-parent assistance unit (AU), the term used to identify a "care" in CalWORKs, is required to participate in WTW activities for an average of 30 hours per week each month or 20 hours per week for a parent with a child under six. In a two-parent AU, one or both adults must participate in WTW activities for a combined total average of 35 hours per week.

Adults may receive a total of 24 months of CalWORKs services and activities pursuant to their WTW plan. This number has been reduced from the original 60 months that were part of the program when it started in 1997. As part of the 2011 Budget, the 60 months were reduced to a new 48-month time limit for adults. The 2012 Budget further reduced the time limit to 24 months, for an effective new and shortened two-year time limit. If an individual is meeting specific requirements, which is generally meeting all hours with unsubsidized employment, then they may receive an additional, conditional 24 months of aid beyond the new two-limit time limit. If the participant is unable to meet the requirements after their first 24 months on aid, then the adult is removed from the case, with access to services eliminated and the cash grant for the whole family reduced substantially.

There is an extender policy for the two-year time limit, with statutory criteria in place to evaluate the need for an additional number of months of WTW services up to six months, however a 20 percent cap on these extensions was further imposed. The extender/20 percent cap policy is still being formulated and the Legislature remains interested in the effect the 24-month time limit overall and the 20 percent limit on credible extensions in particular may affect families

struggling to obtain the skills and opportunities to move permanently away from public aid dependency and out of deep poverty.

Child Care. After recipients find work, child care services may be available for up to 12 months to assist them to retain their employment. Recipients eligible for child care services are entitled to receive subsidized child care while on cash aid and for two years after they are off cash aid. Former recipients who meet child care eligibility requirements are then eligible to transition to the limited Stage 3 child care program.

Monthly Grant Levels. Maximum Aid Payment (MAP), or CalWORKs grant, levels were reduced by 4 percent in July 2009, followed by an additional 8 percent reduction in July 2011, for a cumulative 12 percent cut. An annual cost of living adjustment (COLA) was required for in statute to allow for grants to keep fair pace with inflation, though they often suspended in budget trailer bills to achieve savings. A significant change in COLA policy was made as part of the 2009 budget deal, when COLAs for both CalWORKs and SSI/SSP grants were permanently suspended absent an action from the Director of Finance.

The average grant today for a family of three in a high-cost county is \$464.75 per month, or \$5,577 per year, up to a maximum of \$638 per month and \$7,656 per year for a family of three in a high-cost county with no other income. Current grant levels are only slightly above 1987-88 levels, when they were \$633 per month.

On March 1, 2014 a 5-percent grant increase for CalWORKs families will go into effect. This was approved as part of the 2013 Budget to address the insufficiency of the grant levels factoring in recessionary reductions and the high cost of living, in large part due to housing and transportation costs, in California. The costs for this increase is paid through redirected realignment growth revenues. The Governor's Budget provides General Fund in the 2014-15 budget (\$6.3 million) to maintain this same grant level as approved in the 2013 Budget. The 5-percent increase is expected to cost approximately \$168 million (total funds) annually.

Budget Context. State budgets in recent years reflect vast and deep changes in the CalWORKs Program, at the same time that an increased caseload of parents and children have relied on its benefits for basic subsistence expenses, including housing, hygiene, and clothing costs. For a more detailed history, please see the 2012 Assembly Budget Preliminary Review, which provided a multi-year summary of adopted budget reductions and program policy changes in CalWORKs as a result of past budget negotiations.

Major Provisions in CalWORKs in the Governor's 2014-15 Budget:

- **Early Engagement and the 24-Month Clock.** Implementation of the Early Engagement components that were approved as part of the enacted 2013-14 Budget. These include implementation of the Standardized Appraisal Tool, Family Stabilization program, and Expanded Subsidized Employment. These Early Engagement strategies were intended to align with implementation of the 24-month new time limit (January 1, 2013), but they instead were scheduled to implement a year or longer after the 24-month policy went into effect (January 1, 2014, though the implementation for key pieces is now anticipated in the summer of 2014). Oversight over the effects on clients in the program will be the subject of intense scrutiny and discussion during the Assembly's budget review process, including what effects this will have on California's poverty and deep poverty rate among struggling families and their children.

- ***Proposed New Pilot.*** Proposed creation of a Parent/Child Engagement Demonstration Pilot, which the Governor states will provide support to some of the most vulnerable low-income families who have multiple barriers of entry into the workforce, and do not have access to licensed child care, or who fall into CalWORKs sanction status. The Governor proposes a six-county, 2,000-family pilot project over three years that aspires to connect vulnerable children with stable licensed child care, engage parents with their children in the child care setting, enhance parenting and life skills, and provide parents with work readiness activities that will move the family toward self-sufficiency. The project will cost \$9.9 million General Fund in 2014-15, assuming March 2015 enrollment of the first cohort of families, and \$115.4 million General Fund over three years. The details of how this new program will differ from the current program or from the program as it will be impacted through the implementation of the Early Engagement policies adopted as part of the 2013 Budget are still being learned.
- ***Sufficiency of Grants for Families in Deep Poverty.*** The Governor does not call for any additional increases in the basic needs grant provided to CalWORKs families. For cases that remain eligible for CalWORKs, the 5-percent increase on March 1, 2014 will provide \$23.85 more to the current average monthly grant of \$464.75 for a family of three in a high-cost county. This results in an average monthly grant of \$488.60, keeping these families in deep poverty according to either the Supplemental Poverty Measure or the antiquated Federal Poverty Level measure.

Other Key Provisions in CalWORKs

- ***CalWORKs County Peer Review.*** The Governor's budget requests a total of 8.0 permanent positions and \$.9 million to support the County Peer Review (CPR) process and improve county welfare departments' ability to meet the federal-required WPR for the CalWORKs program, quality control reviews for TANF, and field monitoring visits to ensure implementation of CalWORKs changes enacted in 2012 and 2013. Four of the positions are intended to establish a CPR process, with counties helping the state to develop the process and county visit tools, collaborate in the county reviews, and provide ongoing expertise regarding county systems and practices.

Of the remaining four positions, one position is intended to assist with oversight of the Work Incentive Nutritional Supplement (WINS) program, where a new \$10 per month supplemental food benefit would be provided to working families who are receiving Supplemental Nutritional Assistance Program (food stamp) benefits that are not receiving CalWORKs assistance. Two positions are intended to provide support and evaluation of the Early Engagement changes as required in Senate Bill 1041 (Chapter 47, Statutes of 2012). The last of the total eight positions is requested to manage the entire performance oversight effort.

CALFRESH

Program Description and Background. The CalFresh Program, formerly known as the Food Stamp Program and federally referred to as the Supplemental Nutrition Assistance Program (SNAP), provides for nutrition among eligible low-income households by offering them a benefit amount, posted to a debit card, for the purpose of purchasing food.

The benefits are 100 percent federally funded. The funding for CalFresh administration costs are 50 percent federal funds, 35 percent General Fund, and 15 percent county finds, except for state-mandated program changes, which are 50 percent federal funds and 50 percent General Fund. The Governor's Budget proposes \$1.98 million for CalFresh administration (\$691.6 million State General Fund).

The CalFresh Employment and Training Program requires certain non-assistance CalFresh recipients to participate in employment and training activities. The Department also administers the state-only California Food Assistance Program (CFAP) to provide food benefits to legal immigrants who meet federal SNAP eligibility criteria except for their immigration status. CFAP serves legal noncitizens over the age of 18 and under the age of 65, who were legally in the U.S. prior to August 22, 1996, and met all federal food stamp eligibility criteria (except for their immigration status). The program also serves legal noncitizens who entered the country on or after August 22, 1996, who are otherwise eligible.

Caseload. The CalFresh caseload is 1.8 million households and the estimated amount of benefits issued in 2013 was approximately \$7.1 billion. According to a December 2012 U.S. Department of Agriculture, Food, and Nutrition Service (FNS) report on SNAP participation rates, California ranks among the states with the lowest participation rates. It is estimated that only half of the people eligible to receive CalFresh are enrolled in the program.

Emergency Food Assistance Program. The Emergency Food Assistance Program provides USDA commodities to local food banks for distribution to the working poor, low-income, unemployed, and homeless persons. This program is supplemented with food purchased by food banks using private donations and taxpayer contributions to the Emergency Food Assistance Program Fund made through a state income tax checkoff, as well as surplus fresh fruits and vegetables donated by farmers and businesses.

Major Provisions in CalFresh in the Governor's 2014-15 Budget:

- **Work Incentive Nutritional Supplement (WINS).** The WINS program will provide an additional \$10 per month in food assistance to eligible CalFresh households meeting federal TANF work participation requirements. Statute requires implementation no later than July 1, 2014. \$16.7 million General Fund is budgeted for this purpose in 2014-15. Oversight on implementation of this benefit will be reviewed as part of the Assembly's budget review process.

- **ACA Caseload Impact.** Approximately 114,000 new CalFresh households are anticipated due to the ACA by June 2014, with an additional 31,000 households enrolling by June 2015. These families are expected to come into CalFresh as a result of being connected to health insurance and offered the CalFresh benefit as part of the overall application process, an effect that is also called "horizontal integration," or reaching as many qualifying families for multiple programs through whichever program door they enter into the health and social services system. This premise includes households with gross income at or below 130 percent of the federal poverty level. \$56 million General Fund is budgeted for this caseload increase in 2014-15.
- **Categorical Eligibility.** This provides categorical eligibility for CalFresh to any household that includes a member who is eligible for Medi-Cal to the extent permitted by federal law, as established by AB 191 (Chapter 669, Statutes of 2013). This change allows gross income limits above 130 percent of the federal poverty level for those households, providing the household meets all other applicable CalFresh eligibility requirements. This policy would allow some recipients who otherwise would have been denied eligibility based on their gross income to be eligible for CalFresh. This will increase the CalFresh caseload by 21,000 households by June 2014, with an additional 5,000 households enrolling by June 2015. \$3.1 million General Fund is budgeted for this caseload increase in 2014-15.

IN-HOME SUPPORTIVE SERVICES

Program Description and Background. The Budget includes nearly \$2 billion General Fund (\$7.2 billion total funds) for the In-Home Supportive Services (IHSS) program in 2014-15. IHSS provides an alternative to out-of-home care for low-income aged, blind and disabled persons. IHSS consists of four programs: the Medi-Cal Personal Care Services Program (PCSP), the IHSS Plus Option (IPO) – a Medi-Cal State plan option that replaced the IHSS Plus Waiver Program (IPW), the Community First Choice Option (CFCO), and the IHSS Residual (IHSS-R) program. To qualify for PCSP, IPO, and CFCO services, recipients must first meet eligibility requirements for the Medi-Cal program. This requirement generally means that the individual is income eligible for Medi-Cal, has a chronic disabling condition, and has an assessed need for services to remain safely at home. The IHSS-R program serves individuals who are ineligible for Medi-Cal, but meet the SSI/SSP income standards.

To qualify for IHSS program services, recipients, as mentioned above, must have demonstrated a need for care and have been personally assessed by a caseworker in order for them to remain safely in their home and avoid out-of-home care. IHSS services include domestic and related services (e.g. housework, meal preparation, laundry, shopping), personal care services, accompaniment to medical appointments, protective supervision for mentally impaired recipients who place themselves at risk for injury, hazard, or accident, and paramedical services when directed by a physician.

The IHSS program is administered through the counties. County social workers determine IHSS eligibility and perform case management after conducting a standardized in-home assessment of an individual's ability to perform activities of daily living. Based on authorized hours and services, IHSS recipients are responsible for hiring, firing, and directing their IHSS provider(s). In the vast majority of cases, recipients choose a relative to provide care. Individuals seeking to become a provider in the IHSS program must undergo a criminal background check and meet other requirements.

Caseload. Average monthly caseload in this program is estimated to be 453,417 recipients in 2014-15, a 1.2-percent increase from the 2013-14 projected level.

The IHSS caseload experienced increased growth until policy decisions impacted eligibility and provider access into the program in FY 2009-10. Since 2010, the caseload has experienced a modest year-over-year increase, as reflected in the current projections.

Program Costs and Comparison with Nursing Homes. Based on the most recent estimates of expenditure and caseload data, the average annual cost per person for IHSS is about \$13,000 (total funds) in 2011-12. This estimate assumes a mid-year implementation of the 20 percent reduction in IHSS hours, so, without this reduction, the cost per person for IHSS would be higher. In comparison, the estimated average annual cost per user for nursing facilities is estimated to be \$67,434 (total funds) for 2010-11. It is important to note that this is only the fee-for-service nursing facility cost and does not reflect managed care costs. More updated cost comparisons will be sought for the Assembly's budget review process.

IHSS Providers. In 2012, there were approximately 380,000 IHSS providers with hourly wages varying by county and ranging from \$8.00 to \$12.20 per hour. Prior to July 1, 2012, county public authorities or nonprofit consortia were designated as "employers of record" for collective bargaining purposes on a statewide basis, while the state administered payroll and benefits. Pursuant to 2012-13 trailer bill language, however, collective bargaining responsibilities in the eight counties participating in the Coordinated Care Initiative (CCI) will shift to an IHSS Public Authority administered by the state.

Coordinated Care Initiative. The Governor's budget assumes continued implementation of the CCI/Duals Demonstration in 2014-15 with a phased-in approach depending on the county. As a result of county IHSS MOE funding requirements that were enacted along with CCI and took effect July 1, 2012, the budget includes increases to reflect costs estimated to shift from counties to the state. These issues will come before the Assembly for further review during the usual spring subcommittee process.

2013 Settlement Agreement. Several previously enacted IHSS program reductions—intended to realize ongoing General Fund savings and initiated during a period of budget deficits—were not implemented because the reductions were challenged in class-action lawsuits and subsequently enjoined on a preliminary basis by court orders while the lawsuits proceeded. The three enacted-but-enjoined reductions included:

1. Establishing a stricter threshold of need to receive IHSS (challenged in *Oster v. Lightbourne, et al.*, commonly referred to as Oster I)
2. Reducing IHSS hours by 20 percent (challenged in *Oster v. Lightbourne, et al.*, commonly referred to as Oster II), and
3. Reducing state participation in IHSS provider wages and benefits (challenged in *Dominguez v. Brown, et al.*)

In March 2013, the Department of Social Services (DSS) and Department of Health Care Services (DHCS) reached a settlement agreement with plaintiffs that would resolve the lawsuits by repealing the three enjoined reductions and implementing a new reduction plan intended to realize some General Fund savings while lessening the magnitude of service cuts. The settlement agreement was enacted in Senate Bills 67 and 68 (Chapters 4 and 5, Statutes of 2013). The bills authorized an eight-percent across-the-board reduction to recipient hours, which was an increase of 4.4 percent on top of the 3.6 percent reduction that has been in effect since 2010-11, to begin July 1, 2013 and to last for one year. In 2014-15, and on an on-going basis, there would be a reduction of seven percent, unless it is partially or fully "triggered off" by the state obtaining federal approval for an assessment on home care services that draws down federal funds. The bill also repealed the prior reductions to services, hours, and provider wages that were the subject of the legal settlement.

Budget Context. In addition to changes noted above, budgets in recent years included major program and policy changes in the IHSS program, responding to calls for expenditure controls and for additional program integrity assurances. For a more detailed history, please see the 2012 Assembly Budget Preliminary Review, which provided a multi-year summary of adopted budget reductions and program policy changes in IHSS.

Major Provisions for IHSS in the Governor's 2014-15 Budget:

The Governor's Budget proposes the following for 2013-14 in the IHSS program:

- **Overtime in IHSS.** In response to a September 2013 federal Department of Labor announcement of new Fair Labor Standards Act (FLSA) regulations, effective January 1, 2015, that require overtime pay for domestic workers and compensation for providers traveling between multiple recipients, wait time that is associated with medical accompaniment, and time spent in mandatory provider training, the Governor proposes to prohibit providers from working overtime. As the employer for purposes of hiring, firing, scheduling, and supervising the work of his/her IHSS provider, this restriction will require some recipients to hire and train additional providers to fully provide their authorized services. The Governor proposes to create a Provider Backup System to assist recipients in an unexpected circumstance to obtain a provider for continued care when their regular provider would exceed the limitations on hours worked by continuing to provide services.

Combined implementation of the new federal requirements will cost \$208.9 million (\$99 million General Fund) in 2014-15 and \$327.9 million (\$153.1 million General Fund) thereafter. If California were to implement FLSA regulations without the changes as proposed by the Governor, the administration estimates that full implementation would cost over \$600 million. The Assembly budget review process will look at the possible impact of this proposal on consumer services and safety and on the provider community.

- **IHSS in the CCI.** Proposes no further changes for the IHSS program as a component of the Coordinated Care Initiative (CCI). No earlier than April 2014, certain Medi-Cal beneficiaries residing in a county authorized to participate in the CCI demonstration will begin transitioning from the traditional fee-for-service model to a managed care model for receiving health care services, including IHSS services. The Governor states that under the CCI, the fundamental structure of the IHSS program will remain the same, with eligibility determination, assessment of hours, and program administration conducted by county social workers and administrative staff.

- **Ongoing Hours Reduction.** Proposes no change to the 7-percent reduction in authorized hours that will take effect July 1, 2014, replacing the current 8-percent reduction. The administration has not as yet come forth with a proposal on a home health assessment that could draw down additional federal funds to replace the 7-percent reduction. The Assembly will be interested in development of this proposal as part of the spring hearing process.

Other Key Provisions in IHSS

- **Case Management, Information and Payrolling System II (CMIPS II).** The Governor's budget requests a total of 6.0 permanent positions and \$.8 million (\$.4 million GF) in funding to support the CMIPS II project in its maintenance and operations (M&O) phase. This proposal has a corresponding reduction to its Local Assistance budget as it was originally budgeted within OSI. DSS will assume the lead role for the service and support activities that were formerly outsourced. Duties in this role include system enhancements, inputting of legislatively mandated changes, validation and testing, data extraction, research, analysis, and reporting. CMIPS II will provide monthly and quarterly system updates during the M&O period that will necessitate DSS oversight, leadership, support and approval.

Competitive procurement for CMIPS II to replace the legacy CMIPS, which started in 1979, was conducted in 1997. There were many delays and interruptions, resulting in the Request for Proposal (RFP) for the system being released for bid in April 2005. The contract was awarded to Hewlett Packard, formerly EDS, in March 2008. Development commenced and in July 2012, Merced and Yolo counties began implementation of CMIPS II. San Diego County joined in September 2012. Eight additional counties implemented in March 2013. In September 2013, Los Angeles County implemented. The final counties implemented in November 2013, which concluded the Design, Development and Implementation (DD&I) phase with associated conclusion activities into 2014.

SUPPLEMENTAL SECURITY INCOME / STATE SUPPLEMENTARY PAYMENT

Program Description and Background. The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides a monthly cash benefit to enable needy aged, blind, and disabled people to meet their basic living expenses for food, clothing, and shelter. The 2014-15 Governor's Budget includes \$10.1 billion (\$7.3 billion federal funds, \$2.8 billion General Fund) for the SSI/SSP program.

Caseload and Eligibility. Caseload is estimated to be 1.3 million recipients in 2014-15, a 0.8 percent increase over the 2013-14 caseload. The SSI/SSP caseload consists of 27 percent aged, 2 percent blind, and 71 percent disabled persons.

To be eligible for SSI/SSP, a person must be at least 65 years old, blind, or disabled (including blind or disabled children). A qualified recipient must file an application with the Social Security Administration (SSA). Federal criteria are used to determine eligibility. A qualified SSI recipient is automatically qualified for SSP. To be eligible for SSI and maintain eligibility, a person must meet certain income and resource requirements.

Grants. SSI is a federally funded benefit; SSP is state-funded and added on to the SSI benefit. The maximum amount of aid is dependent on the following factors:

- Whether one is aged, blind, or disabled;
- The living arrangement;
- Marital status; and,
- Minor status.

Effective January 2013, maximum SSI/SSP grant levels were \$866.40 (\$710.00 SSI and \$156.40 SSP) per month for individuals (\$10,397 per year) and \$1,462.20 per month for couples (\$17,546 per year).

The SSA applies an annual cost-of-living adjustment (COLA) to the SSI portion of the grant equivalent to the year-over-year increase in the Consumer Price Index (CPI). The current projected CPI growth factors are 1.5 percent for 2014 and 1.0 percent for 2015. Maximum SSI/SSP monthly grant levels increased effective January 1, 2014 to \$877.40 for individuals and to \$1,478.20 for couples. Effective January 1, 2015 they will be further adjusted to \$884.40 for individuals and to \$1,488.20 for couples.

As part of the 2009-10 Budget agreement, state COLAs for SSI/SSP beneficiaries were indefinitely suspended, and depend upon future statutory authorization. This occurred after many years of COLA suspension, whereby SSI/SSP grants were reduced to minimal levels. As part of the 2011-12 Budget, the state chose to reduce the SSP standard of the SSI/SSP program to the federally required MOE level of the 1983 payment standards for individuals only. Prior actions had reduced the grant levels for couples to the MOE floor, leaving some margin on the grants for individuals given their level of poverty. The MOE refers to a federal provision that limits the reduction a state can make to their SSP benefit levels without penalty. If a state were to reduce its SSP benefit levels below MOE levels, it would lose federal funding for Medi-Cal.

Issues for Consideration. California is now at the MOE floor, or the lowest benefit level possible, for the entire SSI/SSP caseload. Advocates have raised serious questions about the sufficiency of the SSI/SSP grant levels given the cost of living in California and conversation on this topic is expected as part of the Assembly's budget review.

Cash Assistance Program for Immigrants. The Cash Assistance Program for Immigrants (CAPI) provides benefits to aged, blind, and disabled legal immigrants. The CAPI benefits are equivalent to SSI/SSP program benefits, less \$10 per individual and \$20 per couple. The CAPI recipients in the base program include immigrants who entered the United States (U.S.) prior to August 22, 1996, and are not eligible for SSI/SSP benefits solely due to their immigration status; and those who entered the U.S. on or after August 22, 1996, but meet special sponsor restrictions (have a sponsor who is disabled, deceased, or abusive). The extended CAPI caseload includes immigrants who entered the U.S. on or after August 22, 1996, who do not have a sponsor or have a sponsor who does not meet the sponsor restrictions of the base program.

Major Provisions

- **Federal COLA Pass-Through.** Passes through the annual federal cost-of-living adjustment (COLA) to the SSI portion of the grant equivalent to the year-over-year increase in the Consumer Price Index (CPI). The current CPI growth factors are 1.5 percent for 2014 and a projected 0.6 percent for 2015. Maximum SSI/SSP monthly grant levels will increase by \$11 and \$16 for individuals and couples, respectively, effective January 2014. Maximum SSI/SSP grant levels before this COLA increase are \$866 per month for individuals and \$1,462 per month for couples. Cash Assistance Program for Immigrants (CAPI) benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples.

The average monthly caseload in this program is estimated to be 1.3 million recipients in 2014-15, a slight increase over the 2013-14 projected level. The SSI/SSP caseload consists of 27-percent aged, 2-percent blind, and 71-percent disabled persons. Includes \$2.8 billion General Fund for the SSI/SSP program. This represents a 1.2-percent increase (\$34 million) from the revised 2013-14 budget.

CHILD WELFARE SERVICES AND FOSTER CARE

Program Description. The Children and Family Services Division (CFSD) provides leadership and oversight of local county and community agencies in the implementation of an array of services designed to protect children from abuse and neglect, and to strengthen and preserve families. Toward this end, the CFSD meets federal and state requirements and attempts to promote best practices in child welfare services (CWS) through promulgation of regulations, and the delivery of training, technical assistance, fiscal resources, incentives, and program evaluations.

Realignment of 2011. The 2011 Budget included a major realignment of public safety, and other programs from the state to local governments. The 2011 realignment moved program and fiscal responsibility to counties, providing a dedicated source of funding while eliminating duplication of effort, generating savings, and increasing flexibility. Realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The funding sources for realignment include the dedication of 1.0625 cents of a state special fund sales tax and the dedication of a portion of vehicle license fee revenues.

Overview of CWS's Major Areas

- **Emergency Response** – 24/7 assessment and/or investigation of reports of abuse, neglect, or exploitation of children.
- **Foster Care** – 24-hour board and care provided to minors under the jurisdiction of the county court and under the supervision of a local or tribal child welfare agency. Minors are typically removed from their family homes and placed into some form of out-of-home care as a result of known or suspected abuse or neglect (child welfare), or known or suspected commission of a crime (probation). Monthly maintenance payments are distributed to caretakers for board and care of eligible children.

- **Family Maintenance** – Time-limited protective services provided to families in crisis to prevent or remedy abuse or neglect, with the intent of preserving families and keeping children safely in their own homes, when possible.
- **Family Reunification** – Time-limited services to children in foster care and their families, with the goal of safely reuniting children with their families.
- **Permanent Placement (PP)/Adoption** – Alternative family structures and supports for children who cannot remain safely at home and/or who are unlikely to ever to return home. PP includes adoption, legal guardianship and independent living.

Budget Context. The 2011-12 Budget realigned \$1.6 billion in state funding for the CWS, foster care, and adoptions programs, to the counties. Among other provisions, the 2012-13 budget included the following related programmatic changes, which largely impact uses of 2011 realignment funding (as well as federal and county funds), and not the state General Fund:

- **Flexibility for Counties.** Revised or created more flexibility within the requirements of specified programs that had already offered some degree of county option.
- **Accountability and Oversight Provisions.** Required reporting related to the 2011 realignment of CWS programs, including an annual report that summarizes outcome and expenditure data to allow for tracking of program changes and performance on defined outcome measures over time. Further, required the Department and counties to develop agreed upon performance targets for improvements and clarified that the existing California Child & Family Services Review workgroup can reconvene as needed. Additionally, required a transparent, local, public process before a county can significantly change expenditures for specified optional programs.
- **Continuum of Care and Needs Assessment-Related Reforms.** Required DSS to establish workgroups, as specified, to develop and submit recommended revisions to the foster care rate setting system, as well as performance standards and outcome measures for providers of out-of home care. Additionally, revised selection criteria for foster care placements and increased, on an interim basis, the monthly rates paid for Intensive Treatment Foster Care (ITFC), which is intended to offer lower-cost, family based care to children and youth who would otherwise be served in more expensive and restrictive settings.
- **Other Changes.** Improved transitional services for 18 through 20-year olds exiting the foster care system by allowing specified non-minor dependents to receive assistance during a window of time in which they might otherwise have a gap in eligibility and by ensuring continued support of non-minor dependents who are 20-years-old, effective January 1, 2014.

Further, revised licensing or certification standards for transitional housing and increased basic care and supervision rates paid to foster families certified by foster family agencies.

The CWS programmatic realignment accomplished the following:

- **Moratorium on Group Home Rate-Setting.** Permanently extended a moratorium on licensure of new group homes or approvals of specified changes to existing providers' licenses, with some exceptions. New provisions further limit, for one year, exceptions for any programs with rate classification levels below 10 to those associated with a program change.
- **Cost-of-Living Adjustment for Dual Agency Rates.** Required annual adjustment of rates payable for care and supervision of children who are dually eligible for the Child Welfare Services and Developmental Services systems. This change is consistent with changes made last year to foster family home and related rates in response to litigation.
- **DSS Staffing.** Reduced authorized staffing in the Child and Family Services Division of DSS by 42 positions in light of the transition from state to county-based administration of the Agency Adoptions program in a number of counties. Retained and repurposed an additional 11.5 positions to conduct specified oversight and monitoring, including oversight related to realignment, as well as policy and program development, including changes to the continuum of care and assessment of children's needs.

Ongoing oversight and consideration of advocates' issues with regard to CWS and foster care will be a focus within the Assembly's subcommittee hearing process.

Major Provisions

- **Continuum of Care Reform (CCR).** The Governor's budget requests a total of 5.0 permanent positions and \$.5 million (\$.4 million GF) to reestablish the fiscal audits function to monitor the fiscal and operational aspects of group homes and foster family agencies in accordance with federal requirements. These resources will support the Department's CCR efforts as well as fulfill the important function of auditing the appropriateness and effectiveness of federal fund expenditures within the changing landscape of rate reform. These activities include the development and implementation of an improved system for fiscal monitoring and oversight of programs, policies, and fiscal procedures related to the provision of care and services to children and youth placed in out-of-home care and to support the continuous quality improvement process and adherence to provider performance standards through adherence to fiscal audit standards. The BCP for this proposal outlines the expanded audit oversight mandates and three additional types of audits that these resources are intended to support.

COMMUNITY CARE LICENSING

Program Description. The Community Care Licensing Division (CCLD) is a licensing and enforcement program aimed at protecting the health and safety of vulnerable children, adults, and seniors in community care setting. Among other activities, CCLD conducts licensing activities and enforcement for the following community care setting programs:

- Child Care Program: Family Child Care Home and Child Care Centers that provide care to children on a less than 24-hour basis.

- Children's Residential Program: Residential care settings or agencies (e.g. foster homes, group homes, small family homes, foster family agencies or adoption agencies) that provide temporary and long-term care to children on a 24-hour basis.
- Adult Care Program: Residential care and day program settings that provide care to adults, including persons with a developmental disability, mental illness, HIV/AIDS, special health care needs or hospice.
- Senior Care Program: Residential care for persons who are 60 years or older or adults with compatible needs and who need assistance with care and supervision including activities of daily living.

Major Provisions

The Governor's Budget includes the following request related to CCL:

- **Community Care Licensing (CCL).** The Governor's budget includes a CCL request entitled "Quality Enhancement and Program Improvement" requesting a total of 71.5 positions (70.5 permanent and 1.0 limited term) and \$7.5 million (\$5.8 million GF) in funding to enhance health and safety outcomes for children and adults in community care facilities. The components of this integrated proposal include, as a summary:
 - Assisted Living Policy Evolution, including (a) establish medical expertise resources, (b) create a Mental Health Populations Unit, (c) establish a Corporate Accountability Unit, and (d) policy support.
 - Strengthen Enforcement, including (a) significant expansion of civil penalties (more below), (b) recalibrate annual and application fees, (c) establish a statewide hotline, (d) centralize applications and increase visits, (e) establish a Statewide Quality Assurance Unit, (f) improve timeliness of investigation cases.
 - Performance, Quality and Outcomes, including (a) an online exam and efforts to hire the right people, (b) expand Licensing Program Analyst (LPA) Academy and implement ongoing training, (c) develop and implement training for Licensing Managers, and (d) strengthen the administrator certification section.

This proposal includes trailer bill language to increase civil penalties and facility fees. On the civil penalty side, DSS proposes to attach the calculation of the rate of the civil penalty to application and annual fees, which are based on facility size. The proposed structure is summarized here:

- Zero Tolerance Violations: Fine would be equal to five times the licensee's annual fee per day per violation, until and including the day the deficiency is corrected. The current assessed immediate civil penalty is \$150 per day per violation until corrected.
- Repeat Violations: The initial immediate civil penalty assessment would be three times the licensee's annual fee per violation. The current penalty is \$150. Subsequently, for these repeat violations, the assessment will equal 1.5 times the licensee's annual fee per day per violation, until and including the day the deficiency is corrected. The current like penalty is \$50 per day per violation.

- **Failure to Correct:** Failure to correct a deficiency by the identified due date will result in a penalty equal to 25% of the annual fee per day per violation, until and including the day the deficiency is corrected. The current like penalty is \$50 per day per cited violation up to a maximum of \$150 per day, until the deficiency is corrected.
- **Licensing for Family Child Care Homes in Sacramento County.** The Governor's budget requests a total of 10.5 permanent positions and \$.8 million (\$.5 million GF) in funding to support the returned licensing program for family Child Care Homes from Sacramento County to DSS. Under statute CCL contracts with counties to license Family Child Care Homes (FCCCHs). When a county no longer chooses to perform this function, the workload is returned to CCL and the resources budgeted are allocated for one year using provisional budget authority. For the current year, this authority allows redirection of funding from local assistance to state operations to hire staff on a temporary basis to handle the workload. For 2014-15, CCL is requesting to establish these new positions to handle the caseload on a permanent basis. After this transition, only two remaining counties will continue to conduct their own licensing under contract, Inyo and Del Norte.

OTHER PROGRAM AREAS WITHIN DSS

Overview of the Department's Other Major Areas

Adult Protective Services (APS). Each county has an APS agency to help elder adults (65 years and older) and dependent adults (18-64 who are disabled), when these adults are unable to meet their own needs, or are victims of abuse, neglect or exploitation. County APS agencies investigate reports of abuse of elders and dependent adults who live in private homes and hotels or hospitals and health clinics when the abuser is not a staff member. County APS staff evaluates abuse cases and arranges for services such as advocacy, counseling, money management, out-of-home placement, or conservatorship. Reports of abuse that occur in a nursing home, a board and care home, a residential facility for the elderly or at a long term care facility are the responsibility of the Ombudsman's office which is administered by the California Department of Aging.

This program was also realigned in 2011-12 and funding consolidated and allocated to counties through realignment.

Disability Determination. The Disability Determination Service Division (DDSD) is responsible for determining the medical eligibility of California residents for benefits under United States Codes, Title II (Disability Insurance), Title XVI (SSI), and Title XIX (Medically Needy Only) of the Social Security Act. The state augments the SSI with the State Supplementary Payment (SSP). The State Division of DDSD is responsible for the development, evaluation, and adjudication of Medi-Cal, Medically Needy Only cases under Title XIX, which establishes eligibility for the full range of Medi-Cal services for those found disabled.

State Hearings Division. The State provides due process to recipients of public benefits through state hearings conducted by the DSS State Hearings Division (SHD). The SHD is required to provide full, impartial, and timely state hearings to recipients and applicants of various public assistance programs who have disputes with the state or their local county welfare departments. The primary programs involved include CalWORKs, CalFresh, Medi-Cal, and IHSS. Federal mandates require that all requests for hearings be adjudicated within 90

days of a recipient's request, with 60 days required for CalFresh. Two court orders, *King v. McMahon* and *Ball v. Swoap*, impose financial penalties on DSS for failure to adjudicate hearing decisions within the court mandated time frames on all decisions.

Major Provisions

The Governor's Budget includes the following state operations requests for DSS.

- **State Hearings.** The Governor's budget requests a total of 63 limited term position for the Affordable Care Act (ACA) caseload growth and \$9.8 million (\$1.3 million GF) in funding. Also included in this request are 11 positions to support the development of a new Appeals Case Management System, at a cost of \$1.3 million (\$.5 million GF) in funding to replace the failing mainframe database, developed in the 1970s, and the 21 subsystems that make up the current automated State Hearings System (SHS).

New workload coming to the SHS from the ACA is projected to increase the overall fair hearings workload for DSS by 53 percent beginning in October 2013, which does not include the preexisting 26 caseload increase from prior years that the State Hearings Division (SHD) had been experiencing. DSS is requesting resources to address the new workload in Medi-Cal and Covered California appeals cases. The ACA mandates implementation for health programs by January 2014. All health programs, either government-funded/subsidized or private, are required to be available for selection and purchase through federal or State Health Benefit Exchanges, in California called Covered California. Covered California has designated DSS to adjudicate all appeal requests. The Budget Change Proposal (BCP) for this includes additional detail on the methodology that led to the specific level of resources being requested.

The current automation system, SHS, located at DSS headquarters in Sacramento, is used to track, schedule, and manage appeal requests received from all 58 counties. DSS states that the current system does not meet existing business requirements and will not be able to handle the expected increased volume that will be the result of ACA implementation. DSS states that these factors have contributed to a 417 percent increase in GF-imposed civil penalties over the prior five-year period for failing to timely complete all state hearing decisions. Federal instruction and enhanced federal financial participation (FFP) allow for this kind of development of functionalities that provide information linkages between health and social services programs, allowing a unique window for leveraging federal funds to make this investment at minimal state cost.

- **Implementation of AB 1217: Home Care Services Consumer Protection Act.** The Governor's budget requests a total of 10.0 permanent positions and a GF loan of \$1.4 million, which is expected to be repaid with fee revenues from home care organizations and aides. AB 1217 requires DSS to regulate home care organizations and provide for background checks of affiliated home care aides and independent home care aides who wish to be listed on a registry. Resources are requested to set up and maintain the operation and administrative component of this program prior to the operation date of January 1, 2016.

DEPARTMENT OF DEVELOPMENTAL SERVICES

Department Description and Background

The Governor's Budget includes \$5.2 billion total funds (\$2.9 billion General Fund) for the Department in 2014-15; a net increase of \$221.8 million above the updated 2013-14 budget, a 4.5 percent increase.

The Department of Developmental Services (DDS) is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 267,042 persons with developmental disabilities receive the services and support they require to lead more independent and productive lives and to make choices and decisions about their lives.

The Department ensures coordination of services to persons with developmental disabilities; ensures that such services are planned, provided, and sufficiently complete to meet the needs and choices of these individuals at each stage of their lives; and, to the extent possible, accomplishes these goals in the individual's home community. The Department's goals are to:

- Expand the availability, accessibility, and types of services and supports to meet current and future needs of individuals and their families.
- Develop systems to ensure that quality services and supports are provided.
- Facilitate the dissemination of information to improve services and supports and the lives of people with developmental disabilities.
- Ensure the Department, state Developmental Centers (DCs), regional centers, and service providers comply with all applicable federal and state laws, regulations and contracts, including accounting for their funding in an appropriate manner.

Overview of Department's Major Areas. California provides services and supports to individuals with developmental disabilities in two ways: the vast majority of people live in their families' homes or other community settings and receive state-funded services that are coordinated by one of 21 non-profit corporations known as regional centers. A smaller number of individuals live in four state-operated DCs and one state-operated community facility. The number of consumers with developmental disabilities in the community served by regional centers is estimated to increase from 265,709 in the current year to 273,643 in 2014-15. The number of consumers living in state-operated residential facilities is estimated to be 1,049 in 2014-15 from the estimated 1,186 in 2013-14.

Community Services Programs. Through the network of regional centers, the Department supports the development and maintenance of services for eligible persons with developmental disabilities who reside in the community. The regional centers directly provide or coordinate the following services and supports: (1) information and referral, (2) assessment and diagnosis, (3) counseling, (4) lifelong individualized planning and service coordination, formalized into an Individual Program Plan (IPP), (5) purchase of necessary services included in the IPP, (6) assistance in finding and using community and other resources, (7) advocacy for the protection of legal, civil, and service rights, (8) early intervention services for infants and their families, (9) family support, (10) planning, placement, and monitoring for 24-hour out-of-home care, (11) training and educational opportunities for individuals and families, (12) community education

about developmental disabilities, and (13) habilitation services. The needs of individuals who reside in state-operated facilities are assessed and community resources are developed to assist those who can appropriately transition to the community. DDS monitors regional centers to ensure they operate in accordance with statute, regulations, and their contract with the Department.

Developmental Centers Program. DDS operates four DCs: Fairview (Orange County), Lanterman (Los Angeles County), Porterville (Tulare County), and Sonoma (Sonoma County). Secure treatment services are provided at Porterville DC. In addition, DDS leases one small facility for persons who require specialized behavioral interventions: Canyon Springs, a 63-bed facility in Cathedral City. Services at all facilities involve the provision of active treatment through residential and day programs on a 24-hour basis, including appropriate medical and dental care, health maintenance activities, and assistance with activities of daily living, training, education, and employment.

The primary objectives of the DCs include providing care, treatment, and habilitation services in the most efficient, effective, and least restrictive manner to all individuals referred to the DCs by the regional centers, and/or the judicial system; and providing services to individuals that ensure increased independence, maintenance or improvement of health and welfare, and enhanced personal competence and effectiveness in all areas of daily living.

The Developmental Centers Division provides central administrative and clinical management services to the four DCs and the leased small community facility to ensure the quality of services, compliance with state licensing and federal certification requirements, protection of consumers and staff, and maintenance of facility structures and grounds. Areas of responsibility include the development of policy and procedures for all aspects of the DCs operations, law enforcement and protective services, facility population management, program and fiscal oversight, and facilities planning and support.

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,655,676	\$2,797,370	\$2,929,511	132,141	4.7%
General Fund, Proposition 98	6,190	5,708	5,179	(529)	(9.3)
Developmental Disabilities Program Development Fund	5,061	6,194	6,129	(65)	(1.0)
Developmental Disabilities Services Account	-	150	150	-	0
California State Lottery Education Fund	330	403	403	-	0
Federal Trust Fund	54,974	52,303	52,296	(7)	(0.01)
Reimbursements	2,085,261	2,119,032	2,209,236	90,204	4.3
Mental Health Services Fund	1,128	1,128	1,176	48	4.3
Total Expenditures	\$4,808,620	\$4,982,288	\$5,204,080	221,792	4.5%
Positions	4,739.7	5,285.0	4,846.0	(439)	(8.3)

Budget Context. Budgets in recent years included major program and policy changes in the DDS area, both in the community and in the DCs, responding to calls for expenditure controls, program changes, and work toward additional Federal Financial Participation (FFP). For a more detailed history, please see the 2012 Preliminary Review, which provided a multi-year summary of adopted budget reductions and program policy changes in DDS.

Budget reductions in the DD area include \$308 million in savings in 2008-09 that imposed cost-containment measures for services, \$384 million in 2009-10 that included a variety of proposals developed with a workgroup process, \$86 million in 2010-11 that included enactment of a 4.25 percent regional center provider payment reduction (since restored), \$482 million in 2011-12 that extended the provider reduction in conjunction with a variety of other measures, and, finally, a \$240 million reduction in 2012-13 that implemented additional cost containment measures and used Proposition 10 funds (\$40 million) for services for developmentally disabled children.

Early Start. Responding to requests from advocates, in 2013, the Assembly took action in the subcommittee process to restore eligibility for services to infants and toddlers who have a 33 percent delay in one domain (rather than continuing to require greater delays of 50 percent in one domain, or 33 percent in two or more domains, consistent with changes made as part of 2009 budget cuts). This change required a reinvestment of \$12 million General Fund and would have been effective October 1, 2013. Early Start provides early intervention and support services to families with about 30,000 infants and toddlers who have a developmental delay or disability, or an established risk condition with a high probability of resulting in a delay. The issue went to Budget Conference Committee and ultimately did not receive any additional funding in 2013. The Assembly may wish to continue to consider this area for reinvestment in the future, among other priorities that may emerge from the advocacy community.

Decertification Issues. The Governor's Budget includes \$9.2 million (\$5.1 million General Fund) to reflect anticipated costs related to the ongoing implementation of the Sonoma Developmental Center Program Improvement Plan. The Plan was entered into on March 13, 2013 with the California Department of Public Health and the Centers for Medicare and Medicaid Services (CMS) to bring the facility back into compliance with federal requirements. DDS is currently working with Public Health and CMS on certification actions at the Fairview, Porterville and Lanterman Developmental Centers and recently announced that it entered into an agreement specifying a path to resolving these certification issues.

Lanterman, Fairview, and Porterville Developmental Centers are licensed as General Acute Care Hospitals and provide supplemental services as distinct part skilled nursing facilities (SNF) and distinct part Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IID): these developmental centers in their distinct part ICF-IID serve 70, 188 and 172 clients respectively. The pending decertification actions only apply to the distinct part ICF-IID. If decertified, a developmental center would not be eligible for federal funding for services provided in the distinct part ICF-IID. The pending actions do not impact the licenses of the developmental centers, so services would continue to be provided to residents. These issues will be discussed in the Assembly's subcommittee process.

Future of DCs Task Force. Since the 1960s, with the passage of the Lanterman Act, the role of the DCs has been changing. The resident population has dropped from a high in 1968 of 13,400, with thousands on a waiting list for admission, to 1,335 residents as of January 1, 2014. The population at each of the four facilities, originally designed to serve between 2,500 and 3,500 individuals, is now below 500, with Fairview DC at 318 residents and Lanterman DC at 101. Additionally, the trailer bill to the 2012-13 budget imposed a moratorium on admissions to

DCs except for individuals involved in the criminal justice system and consumers in an acute crisis needing short-term stabilization.

Each year Community Placement Plan (CPP) funding (\$67 million in 2013-14) is provided to regional centers to expand and improve services to meet the needs of DC residents transitioning to the community. As new CPP-funded resources become available, on average 175 to 200 consumers move out of a DC into community-based services each year. With the CPP funding provided in FY 2011-12 through 2013-14, DDS projects that over 500 new residential beds will be available for DC movers during the next 18 months. The moratorium, coupled with CPP placements and prior changes in the service delivery system, has reduced the reliance on State-operated DCs and expedited the decline in resident population in these facilities.

Responding to advocates across the DDS system, the Assembly discussed these issues during the subcommittee process. Health and Human Services Agency (HHSA) Secretary Diana Dooley announced in May that the Agency was seeking the creation of a task force to review DC issues. The Legislature formalized this with the passage of Assembly Bill 89 (Chapter 25, Statutes of 2013), which required reports to be issued to the Legislature. HHSA released a report titled "Plan for the Future of Developmental Center In California" on January 13, 2014 including six recommendations, summarized below.

1. More community style homes and facilities should be developed to serve individuals with enduring and complex medical needs using existing models of care.
2. The State should operate at least two acute crisis facilities, like the Fairview DC program, and small transitional facilities. The State should develop a new "SB 962" like model that will provide a higher level of behavioral services. Funding should be made available so that regional centers can expand mobile crisis response teams, crisis hotlines, day programs, short-term crisis homes, new-model behavioral homes, and supported living services for those transitioning to their own homes.
3. For individuals who have been involved in the criminal justice system, the State should continue to operate the Porterville DC-STP and the transitional program at Canyon Springs Community Facility. Alternatives to the Porterville DC-STP should also be explored.
4. The development of a workable health resource center model should be explored to address the complex health needs of DC residents who transition to community homes.
5. The State should enter into public/private partnerships to provide integrated community services on existing State lands, where appropriate. Also, consideration should be given to repurposing existing buildings on DC property for developing service models identified in recommendations 1-4.
6. Another task force should be convened to address how to make the community system stronger.

Overall, the message of the report is that the DCs will need to transition from large congregate 24-hour nursing and Intermediate Care Facility services to a new model. The recommendations of this Task Force are that the future role of the State is to operate a limited number of smaller, safety-net crisis and residential services coupled with specialized health care resource centers and public/private partnerships, as well as the Porterville DC - Secure Treatment Program (STP) and the Canyon Springs Community Facility.

Major Provisions for Department of Developmental Services in the Governor's 2014-15 Budget:

Community Services Program

- **Caseload and Utilization.** \$138.6 million increase (\$82.9 million GF) in regional center operations (OPS) and purchase of services (POS) to reflect caseload and utilization due to updated population and expenditure data including HCBS Waiver enrollment above budgeted levels.
- **Regional Center Operations Adjustment.** \$2.1 million increase GF in OPS to reflect an adjustment to correct the double counting of savings related to the 2009-10 Early Start Eligibility savings proposal.
- **Impacts from Other Departments.** -\$3.1 million GF decrease in POS to reflect the Department of Health Care Services restoration of Enteral Nutrition and partial restoration of Adult Dental Services as a Medi-Cal Optional Benefit.
- **Minimum Wage Increase.** In accordance with Assembly Bill (AB) 10 (Alejo), Chapter 351, Statutes of 2013 which increases the minimum wage from \$8.00 to \$9.00 effective July 1, 2014, provides a \$0.1 million (\$0.1 million GF) increase in OPS due to the minimum wage increase will impact positions in regional center Core Staffing that are budgeted at salary levels that are below \$9.00; and \$110.1 million (\$69.3 million GF) increase in POS applies to services which rely on employees that are paid minimum wage.
- **Federal Overtime Change.** \$7.5 million (\$4.0 million GF) increase in POS to reflect the impact of regulatory changes in the United States Department of Labor Fair Labor Standards to include overtime compensation for service providers that previously were not required to pay overtime effective, January 1, 2015.

Developmental Centers Program

- **Employee Compensation Changes and Statewide Fleet Reduction.** Net increase of \$6.9 million (\$4.3 million GF) due to Control Sections for employee compensation increases approved through the collective bargaining process, changes in retirement contribution rates, and savings from Executive Order B-2-11 Fleet Reduction.
- **Sonoma DC Program Improvement Plan.** \$9.2 million (\$5.1 GF) and 118.5 position increase for continuing costs into 2014-15 at Sonoma DC for the PIP to ensure the facility is in compliance with federal and state licensing and certification requirements.

- **DC Population Decrease Staffing Adjustments (Excluding Lanterman).** -\$12.8 million (-\$7.2 GF) decrease for population staffing adjustments at the DCs for Level of Care (LOC) 114.0 and Non-Level of Care (NLOC) 55.0 (excluding Lanterman DC).
- **Lease Revenue Debt Service Adjustment.** \$2.8 million (\$2.8 GF) increase due to Control Section 4.30 for an adjustment to the Lease Revenue Debt Service.
- **Restoration of Federal Reimbursements at Sonoma DC.** \$15.7 million funding shift from general fund to reimbursement to eliminate the GF backfill in 2013-14 for the four Sonoma ICF units withdrawn from the Medicaid Provider Agreement to ensure continued federal funding for the remaining six ICF units.
- **Reduction in the Lottery Education Funds.** -\$62,000 decrease due to a reduction in the Lottery Education Funds.
- **Foster Grandparents Program Funding Transfer.** -\$0.3 million (-\$0.2 GF) decrease to transfer funding from Foster Grandparents Program to Community Services.
- **Lanterman Closure Activities.** Net decrease of -\$22.7 million (-\$12.0 GF) for Lanterman closure activities as detailed below.
- **Lanterman DC Closure Update.** The Governor's Budget continues to support Developmental Center and Community efforts towards closure of the Lanterman facility on December 31, 2014. The Department, working with regional centers, anticipates the transition of approximately 120 Lanterman DC residents in FY 2013-14. The Governor's Budget anticipates the transition of another 22 residents to community living arrangements in FY 2014-15 with the anticipated resident population being zero on December 31, 2014, with the closure of the facility.

In addition to the Control Sections impacting the Lanterman DC, the Governor's Budget reflects a net decrease in 2014-15 of -\$22.7 million (-\$12.0 million GF) for position reductions due to the Lanterman DC closure, staff separation costs, enhanced staffing adjustments, and post-closure activities. The reduced funding is the net of the following adjustments:

- \$33.7 million (-\$18.5 GF) decrease and -317.0 position reduction with the anticipated residential population being zero on December 31, 2014;
 - \$11.8 million (\$6.4 GF) increase to support numerous activities with the closure of the facility and separation of staff;
 - -\$2.3 million (-\$1.2 GF) and -40.0 positions reduction of Enhanced Staff that are no longer needed for closure related activities beginning July 1, 2014;
 - -\$2.0 million (-\$1.1 GF) reduction of half year funding for the remaining 48.0 Enhanced Staff Positions to support costs during the closure period of July 1, 2014 through December 31, 2014; and
 - \$3.5 (\$2.4 GF) and 68.0 position increase for post-closure related activities. This funding is for the period from January 1, 2015 through June 30, 2015.
- **Headquarters.** The Governor's Budget proposes Headquarters operations funding for FY 2014-15 of \$40.7 million (\$25.9 million GF), an increase of \$1.4 million (\$.9 million GF) compared to the FY 2013-14 enacted budget. The Headquarters budget increase is composed of the following:

- \$.5 million (\$.3 GF) increase due to employee compensation increases approved through the collective bargaining process and changes in retirement contribution rates.
- \$.9 million (\$.6 GF) increase due to the *Vendor Audit Positions* Budget Change Proposal (BCP) that requests 7.0 limited-term auditor positions to assist with the increased demand for vendor audits and the associated recovery of funds from reduced vendor fraud, waste, and abuse.
- Conversion of 1.0 limited-term Career Executive Assignment, Assistant Deputy Director position to 1.0 permanent full-time in the Office of Federal Programs and Fiscal Support, Community Services Division, at no additional costs.

Other Key Provisions

- **Deferred Maintenance.** The Governor's Budget provides \$10 million for DDS as part of an overall \$100 million funding effort for various state agencies to address critical infrastructure deferred maintenance needs. More detail on the proposed use of these funds will be presented to the Assembly in the hearing process.
- **FFP Staffing.** DDS requests \$160,000 (\$108,000 General Fund) to convert 1.0 CEA II, Assistant Deputy Director, Office of Federal Programs and Fiscal Support, position from limited-term to permanent. The CEA II position was originally established in 2010-11 as a two-year limited-term position pending further review of workload associated with federal funding requirements. In 2012-13 the position was approved as limited-term for an additional two years. On May 10, 2013, CalHR approved the permanent establishment and level of this CEA position based on the ongoing workload associated with maintaining federal funding of approximately \$1.8 billion.

DDS states that this request is consistent with state level policy to achieve federal financial participation (FFP) where possible, and to maintain existing federal funding. As the budget assumes significant amount of FFP in the DDS budget in the current and budget year, DDS is asking for this resource to work with the federal Centers for Medicaid and Medicare Services (CMS) and demonstrate the administrative/operational infrastructure and capacity to carry out administrative duties and provide guidance and monitoring of the community system to ensure compliance with federal requirements.

- **Vendor Audits.** DDS requests \$897,000 (\$605,000 General Fund) for 7.0 two-year, limited-term auditor positions to meet workload associated with increased demand for vendor audits and associated recovery of funds. The implementation of the Department's whistleblower process, coupled with the fraud, waste, and abuse identified during recent audits, requires additional auditing resources to ensure the adequate oversight and review of provider billings.

DDS states that this proposal is consistent with the current policies, priorities, and initiatives of the administration in that it ensures increased accountability within the DDS system of services and supports and ensures that funds that have been improperly disbursed are remitted back to the state. For a number of years, DDS has maintained and supported the need for increased accountability of its vendor community; therefore, the requesting positions are consistent with the Department's Strategic Plan concerning accountability. The potential revenue generated from additional audit staff could increase recoveries from \$6.9 million to \$11.7 million or more per fiscal year.

DEPARTMENT OF AGING

Department Description. The California Department of Aging's (CDA's) mission is to promote the independence and well-being of older adults, adults with disabilities, and families through:

- Access to information and services to improve the quality of their lives;
- Opportunities for community involvement;
- Support to family members providing care; and
- Collaboration with other state and local agencies.

As the designated State Unit on Aging, the Department administers Older Americans Act programs that provide a wide variety of community-based supportive services as well as congregate and home-delivered meals. It also administers the Health Insurance Counseling and Advocacy Program. The Department also contracts directly with agencies that operate the Multipurpose Senior Services Program.

The Department administers most of these programs through contracts with the state's 33 local Area Agencies on Aging (AAAs). At the local level, AAAs contract for and coordinate this array of community-based services to older adults, adults with disabilities, family caregivers and residents of long-term care facilities.

Overview of Department's Major Areas

- **Nutrition.** The Nutrition Program provides nutritionally-balanced meals, nutrition education and nutrition counseling to individuals 60 years of age or older. In addition to promoting better health through improved nutrition, the program focuses on reducing the isolation of the elderly and providing a link to other social and supportive services such as transportation, information and assistance, escort, employment, and education.
- **Senior Community Employment Services.** The federal Senior Community Service Employment Program, Title V of the Older Americans Act, provides part-time subsidized training and employment in community service agencies for low-income persons, 55 years of age and older. The program also promotes transition to unsubsidized employment.
- **Supportive Services and Centers.** This program provides supportive services including information and assistance, legal and transportation services, senior centers, the Long-Term Care Ombudsman and elder abuse prevention, and in-home services for frail older Californians as authorized by Titles III and VII of the Older Americans Act. The services provided are designed to assist older individuals to live as independently as possible and access the programs and services available to them.
- **Special Projects.** This program includes the community-based Health Insurance Counseling and Advocacy Program (HICAP). HICAP provides personalized counseling, community education and outreach events for Medicare beneficiaries. HICAP is the primary local source for accurate and objective information and assistance with Medicare benefits, prescription drug plans and health plans.
- **Medi-Cal Programs.** This program includes the Multipurpose Senior Services Program (MSSP) and Adult Day Health Care (ADHC) program, which was eliminated effective February 29, 2012. The new Community-Based Adult Services (CBAS) began March 1 2012 to provide necessary medical and social services to adults with the greatest

need. The CBAS program is operated by the Department of Health Care Services. The MSSP provides health/social case management to prevent premature and unnecessary long-term care institutionalization of frail elderly persons. The Department provides program oversight of the MSSP via an interagency agreement with the Department of Health Care Services.

Recessionary cuts in past budgets eliminated any General Fund for program funding that had previously complemented federal funds received for aging services, including state funds that had supported foster grandparent program, meals on wheels, senior and congregate nutrition programs, and senior employment services.

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$31,416	\$32,235	\$32,228	(7)	(0.02%)
State HICAP Fund	2,468	2,478	2,477	(1)	(0.04)
Federal Trust Fund	149,033	150,298	149,188	(1,110)	(0.7)
Special Deposit Fund	1,186	1,190	1,190	-	-
Reimbursements	7,350	12,510	10,483	(2,027)	(16.2)
Skilled Nursing Facility Quality and Accountability Fund	1,900	1,900	1,900	-	-
Total Expenditures	\$193,353	\$200,611	\$197,466	(3,145)	(1.6%)
Positions	107.9	115.5	117.8	2.3	2

Major Provisions for Department of Aging in the Governor's 2014-15 Budget:

- **Federal Grant Related to Alzheimer's.** CDA requests a total of \$820,000 in federal budget authority in order to receive a three-year federal Administration on Aging grant. The grant will build a dementia capable integrated system of care for patients with Alzheimer's disease or related disorders enrolled in the California Cal MediConnect. CDA will be working in collaboration with the Department of Health Care Services (DHCS), the California Alzheimer's Association Chapters, and interested managed care plans on this project. Approval of this request will not result in any General Fund costs.

Current year authority for \$153,000 is being obtained via the Section 28 process. This proposal requests expenditure authority in the amounts of \$276,000 for 2014-15, \$311,000 for 2015-16, and \$80,000 for 2016-17. CDA states that this grant aligns with key recommendations contained in the California State Plan for Alzheimer's Disease.

- **Aging and Disability Resource Connection.** CDA requests the transfer of administration and program oversight responsibilities for the Aging and Disability Resource Connection (ADRC) program from the California Health and Human Services Agency (CHHS) to CDA. Providing program oversight for the local network of ADRCs is more appropriately handled at the departmental level and will allow the CDA to use its existing federal grant funding and federal funds from DHCS and State Independent Living Council (SILC) to continue the program when CHHS grant funds expire. The CDA requests 2.6 one-year limited-term

positions currently housed in CHHS to be transferred to the CDA budget and \$275,000 in additional reimbursement authority to fund the ADRC program oversight activities. CDA reimbursement authority will be required to collect federal funds from DHCS and SILC via Interagency Agreements. This request will not result in a General Fund increase.

- **Community Living Model Approaches.** CDA requests \$536,000 in federal budget authority to receive a three-year federal Administration for Community Living Model Approaches to Statewide Legal Assistance Systems-Phase II grant. Building upon its Phase I efforts, this project seeks to implement strategies to improve the coordination and efficiency of the Older Americans Act legal services delivery stems and target resources to older adults in greatest needs. Approval of this request will not result in a General Fund cost.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

Department Description. The mission of the Department of Community Services and Development (CSD) is to administer and enhance energy and community services programs that result in an improved quality of life and greater self-sufficiency for low-income Californians.

Overview of Department's Major Areas

Energy Programs. The Energy Programs assist low-income households in meeting their immediate and long-term home energy needs through financial assistance, energy conservation, and weatherization services.

- The Low-Income Home Energy Assistance Program (LIHEAP) provides financial assistance to eligible households to offset the costs of heating and/or cooling dwellings, payments for weather-related or energy-related emergencies, and free weatherization services to improve the energy efficiency of homes. This program may include a leveraging incentive program in which supplementary LIHEAP funds can be obtained by LIHEAP grantees if non-federal leveraged home energy resources are used along with LIHEAP weatherization related services.
- The federal Department of Energy Weatherization Assistance Program provides weatherization related services, while safeguarding the health and safety of the household.
- The Lead Hazard Control Program provides for the abatement of lead paint in low-income privately owned housing with young children.

Community Services. The Community Services Block Grant Program is designed to provide a range of services to assist low-income people in attaining the skills, knowledge, and motivation necessary to achieve self-sufficiency. The program also provides low-income people with immediate life necessities such as food, shelter, and health care. In addition, services are provided to local communities for the revitalization of low-income communities, the reduction of poverty, and to help provider agencies to build capacity and develop linkages to other service providers.

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
Federal Trust Fund	218,882	252,025	251,511	(514)	(0.2)
Greenhouse Gas Reduction Fund	-	-	80,000	80,000	100
Total Expenditures	\$218,882	\$252,025	\$331,511	79,486	31.5%
Positions	97.0	107.8	107.8	-	-

Major Provisions for Department of Community Services and Development in the Governor's 2014-15 Budget:

- **Weatherization and Solar Programs in Disadvantaged Communities.** CSD requests \$80 million from the Greenhouse Gas Reduction Fund in 2014-15 to support activities promoting greenhouse gas (GHG) emission reductions in disadvantaged communities in the residential sector. The \$80 million in funding each year will be allocated to State Operations (\$5 million) and Local Assistance (\$75 million). Funds will support the expansion of existing weatherization and solar programs, including such efforts as installation of solar photovoltaic systems, solar water heating systems, insulation, weather-stripping, caulking, fixing or replacing windows, refrigerator replacement, lighting upgrades, electric and gas water heater repair/replacement, low flow water devices, and heating and cooling system repair/replacement.

CSD states that there is strong support for the department to receive the requested Cap and Trade funds to install energy efficiency measures and clean and renewable energy generation in disadvantaged communities. CSD states that it has the experience and statewide network to provide weatherization and solar services to low-income individuals in the disadvantaged communities identified in the Cap and Trade Investment Plan.

DEPARTMENT OF REHABILITATION

Department Description. The California Department of Rehabilitation works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities.

Overview of Department's Major Areas

Vocational Rehabilitation. The Vocational Rehabilitation Services Program delivers vocational rehabilitation services to persons with disabilities through vocational rehabilitation professionals in district and branch offices located throughout the state. In addition, the Department has cooperative agreements with state and local agencies (education, mental health, and welfare) to provide unique and collaborative services to consumers. The Department operates under a federal Order of Selection process, which gives priority to persons with the most significant disabilities.

Persons with disabilities who are eligible for the Department's vocational rehabilitation services may be provided a full range of services, including vocational assessment, assistive technology, vocational and educational training, job placement, and independent living skills training to maximize their ability to live and work independently within their communities.

The Department also provides comprehensive training and supervision to enable persons who are blind or visually impaired to support themselves in the operation of vending stands, snack bars, and cafeterias. Prevocational services are provided by the Orientation Center for the Blind to newly blind adults to prepare them for vocational rehabilitation services and independent living.

The Department also works with public and private organizations to develop and improve community-based vocational rehabilitation services for the Department's consumers. The Department sets standards, certifies Community Rehabilitation Programs, and establishes fees for services provided to its consumers.

Independent Living Services. The Department funds, administers, and supports 29 non-profit independent living centers in communities located throughout California. Each independent living center provides services necessary to assist consumers to live independently and be productive in their communities. Core services consist of information and referral, peer counseling, benefits advocacy, independent living skills development, housing assistance, personal assistance services, and personal and systems change advocacy.

The Department also administers and supports the Traumatic Brain Injury (TBI) Program. In coordination with consumers and their families, seven service providers throughout California provide a coordinated post-acute care service model for persons with TBI, including supported living, community reintegration, and vocational supportive services.

The Department also serves blind and deaf-blind persons through counselor-teacher services, purchase of reader services, and community-based projects to serve the elderly blind.

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$55,266	\$56,972	\$57,007	35	0.06%
Traumatic Brain Injury Fund	1,060	946	1,002	56	5.9
Vending Stand Fund	982	2,361	2,361	-	-
Federal Trust Fund	314,812	347,265	357,849	10,584	3
Reimbursements	6,046	7,680	7,680	-	-
Total Expenditures	\$378,166	\$415,224	\$425,899	10,675	2.6%
Positions	1,708.3	1,823.0	1,829.0	6	0.3

Major Provisions for Department of Rehabilitation in the Governor's 2014-15 Budget:

- **Traumatic Brain Injury Fund.** DOR requests an additional \$500,000 allocation in 2014-15 to the Traumatic Brain Injury Fund from the Driver Training Penalty Assessment (DTPA)

Fund. DOR states that this proposal affects the amount of DTPA funds that would otherwise revert to the General Fund. The Controller's Office reports the Seatbelt Penalty Account has decreased by over \$44 million since 2006-07, which has resulted in a loss of almost \$300,000 to the TBI Fund. Due to diminishing revenues, the TBI program is at severe risk of becoming unstable and unable to provide essential services to persons with TBI. TBI consumers continue to grow due to early detection, awareness, better technology, and medical treatment making it even more critical for DOR to maintain this level of service.

DOR states that this request will allow DOR to finalize an application for and the implementation of a Home and Community Based Services (HCBS) waiver program. The HCBS waiver program is estimated to provide \$250,000 to \$300,000 of revenue that can be used to ensure essential services can be provided, uninterrupted, through seven TBI sites until the sunset date of 2019. There is no other funding source that's available to DOR at this time to continue to fund all seven TBI sites.

- **CaPROMISE Federal Grant.** DOR requests an increase of \$10 million in federal authority beginning in 2014-15 for the CaPROMISE federal grant. The grant period is currently slated for five years and there is no state match requirement. Due to the increase in workload to administer and oversee the grant, the DOR also requests six permanent full-time positions for required administrative and program oversight, and to perform mandated accounting, contracting, and data management activities. The cost for the positions is \$328,183 and is presumed to come from the federal grant monies.

The competitive federal grant, entitled "Promoting the Readiness of Minors in Supplemental Security Income (PROMISE)," is a joint initiative of the U.S. Department of Education, U.S. Social Security Administration (SSA), U.S. Department of Health and Human Services, and the U.S. Department of Labor to develop and implement model demonstration projects that promote outcomes for 14 to 16 year old Supplemental Security Income (SSI) recipients and their families. The grant period began October 1, 2013 and is 100 percent federally funded, with no state match requirement.

DEPARTMENT OF CHILD SUPPORT SERVICES

Department Description. The mission of the Department of Child Support Services (DCSS) is to enhance the well-being of children and the self-sufficiency of families by providing professional services to locate parents, establish paternity, and establish and enforce orders for financial and medical support.

DCSS is committed to ensuring that California's children are given every opportunity to obtain financial and medical support from their parents in a fair and consistent manner throughout the state. DCSS is committed to providing the highest quality services and collection activities in the most efficient and effective manner.

Overview of Department's Major Areas. The Department of Child Support Services (DCSS) is the single state agency designated to administer the federal Title IV-D state plan. The Department is responsible for providing statewide leadership to ensure that all functions necessary to establish, collect, and distribute child support in California, including securing child and spousal support, medical support and determining paternity, are effectively and efficiently implemented. Eligibility for California's funding under the Temporary Assistance to Needy Families (TANF) Block Grant is contingent upon continuously providing these federally required

child support services. Furthermore, the Child Support Program operates using clearly delineated federal performance measures, with minimum standards prescribing acceptable performance levels necessary for receipt of federal incentive funding. The objective of the Child Support Program is to provide an effective system for encouraging and, when necessary, enforcing parental responsibilities by establishing paternity for children, establishing court orders for financial and medical support, and enforcing those orders.

Child Support Administration. The Child Support Administration program is funded from federal and state funds. The Child Support Administration expenditures are comprised of local staff salaries, local staff benefits, and operating expenses and equipment. The federal government funds 66 percent and the state funds 34 percent of the Child Support Program costs. In addition, the Child Support Program earns federal incentive funds based on the state's performance in five federal performance measures. Revenue Stabilization funds (\$18.7 million (\$6.4 million General Fund) annually) have been provided to Local Child Support Agencies (LCSAs) to retain caseworker staff in order to maintain child support collections. A report on the workforce retention and associate collections associated with this augmentation is provided to the Legislature every January with the Governor's Budget.

Child Support Automation. Federal law mandates that each state create a single statewide child support automation system that meets federal certification. There are two components of the statewide system. The first is the Child Support Enforcement (CSE) system and the second is the State Disbursement Unit (SDU). The CSE component contains tools to manage the accounts of child support recipients and to locate and intercept assets from non-custodial parents who are delinquent in their child support payments. In addition, it funds the local electronic data processing maintenance and operation costs. The SDU provides services to collect child support payments from non-custodial parents and to disburse these payments to custodial parties.

FFY 2012 – Federal Performance Measures. The Assembly will request and review more updated information on federal performance measures.

- **Statewide Paternity Establishment Percentage (PEP)** for California measured 101.6 percent for Federal Fiscal Year (FFY) 2012. California's performance decreased in this measure by 5.4 percentage points from FFY 2011 to FFY 2012. Since FFY 2000, Statewide PEP has been above 100 percent. The PEP measures the total number of children born out-of-wedlock for whom paternity was acknowledged or established in the fiscal year compared to the total number of children in the state born out-of-wedlock during the preceding fiscal year, expressed as a percentage.
- **IV-D Paternity Establishment Percentage** for California measured 98.4 percent for IV-D PEP in FFY 2012. California's performance increased in this measure by 6.2 percentage points from FFY 2011 to FFY 2012. The IV-D PEP measures the total number of children in the IV-D, or Child Support, caseload in the fiscal year who have been born out-of-wedlock for whom paternity has been established, compared to the total number of children in the IV-D caseload as of the end of the preceding fiscal year, expressed as a percentage.

- **Cases with Support Orders Established** for California measured 87.9 percent for FFY 2012. California's performance increased in this measure by 2.1 percentage points from FFY 2011 to FFY 2012. This data element measures cases with support orders as compared with the total caseload. Support orders are broadly defined as all legally enforceable orders, including orders for medical support only, and zero support orders, expressed as a percentage.
- **Collections on Current Support** for California measured 61.4 percent for FFY 2012. California's performance increased in this measure by 2.8 percentage points from FFY 2011 to FFY 2012. This performance standard measures the amount of current support collected as compared to the total amount of current support owed, expressed as a percentage.
- **Cases with Collections on Arrears** for California measured 63.5 percent for FFY 2012. California's performance increased in this measure by 1.9 percentage points from FFY 2011 to FFY 2012. This performance standard measures the number of cases with child support arrearage collections as compared with the number of cases owing arrearages during the federal fiscal year, expressed as a percentage.
- **Cost Effectiveness** for California measured \$2.47 for FFY 2012. California's performance increased in this measure by \$0.18 from FFY 2011 to FFY 2012. This measure compares the total amount of distributed collections to the total amount of expenditures for the fiscal year, expressed as distributed collections per dollar of expenditure.

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$298,865	\$312,964	\$312,892	(72)	(0.02%)
Federal Trust Fund	445,713	494,894	494,607	(287)	(0.06)
Reimbursements	96	123	123	-	-
Child Support Collections Recovery Fund	186,120	190,408	190,408	-	-
Total Expenditures	\$930,794	\$998,389	\$998,030	(359)	(0.03%)
Positions	493.7	593.5	628.5	35	5.9

Major Provisions for Child Support Services in the Governor's 2014-15 Budget:

- **Staffing Support for CCSAS-CSE.** DCSS requests a shift in funding from Local Assistance to State Operations in the amount of \$11.95 million (\$4.06 million General Fund) and position authority for 100.0 full-time permanent positions to replace 100.0 contract staff over a three-year period of time beginning in 2014-15, to continue the maintenance and operations (M&O) of the federally mandated California Child Support Automation System (CCSAS) Child Support Enforcement (CSE) system. This transition will result in an on-going reduction of \$699,196 (\$237,727 General Fund) in total project funding and on-going net budgetary savings.

Currently, the 100 contract staff supports the M&O, including development, database administration, technical architecture, testing, performance management, and network

support. The minimum qualifications for these positions require experience, skills, and knowledge in specific tools, technologies, systems, concepts, computer languages, or other technical areas. The replacement of contractor staff with permanent state civil service staff will be spread over multiple functions within multiple sections of the Technology Services Division (TSD) to ensure a smooth transition. Annual savings from this transition are estimated at \$699,196 General Fund and are expected to be achieved once the transition is completed.

HEALTH AND HUMAN SERVICE AGENCY

Description of Agency. The primary mission of the Health and Human Services Agency (HHSA) is to provide policy leadership and direction to the departments, board and programs it oversees, to reduce duplication and fragmentation among HHSA departments in policy development and implementation, to improve coordination among departments on common programs, to ensure programmatic integrity, and to advance the Governor's priorities on health and human services issues.

The HHSA accomplishes its mission through the administration and coordination of state and federal programs for public health, health care services, social services, public assistance, health planning and licensing, and rehabilitation. These programs touch the lives of millions of California's most needy and vulnerable residents. The HHSA is committed to striking a balance between the twin imperatives of maintaining access to essential health and human services for California's most disadvantaged and at-risk residents while constantly pursuing ways to better manage and control costs.

The following departments and entities fall under the purview of the HHSA:

- Department of Aging
- Department of Child Support Services
- Department of Community Services and Development
- Department of Developmental Services
- Emergency Medical Services Authority
- Department of Health Care Services
- Department of Public Health
- Department of Rehabilitation
- Department of Social Services
- Department of State Hospitals
- Office of Statewide Health Planning and Development
- Managed Risk Medical Insurance Board

Fiscal Overview:

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,568	\$3,142	\$3,115	(27)	(0.9%)
Federal Trust Fund	1,685	4,333	3,643	(690)	(15.9)
Reimbursements	2,919	3,642	3,282	(360)	(9.9)
Internal Health Information Integrity Quality Improvement Account	-	25	25	-	-
California Health Information Technology and Exchange Fund	7,119	21,000	9,798	11,202	53.3
Office of Patient Advocate Trust Fund	2,110	2,731	2,741	(10)	(0.4)
Office of Systems Integration Fund	262,391	-	-	-	-
Central Service Cost Recovery Fund	839	819	849	30	3.7
California Health and Human Services Automation Fund	-	318,118	246,655	(71,463)	(22.5)
Total Expenditures	\$279,631	\$353,810	\$270,108	83,702	23.7%
Positions	210.2	250.7	257.7	7.0	2.8

Major Provisions for Health and Human Services Agency in the Governor's 2014-15 Budget:

- **Transfer of Positions to DPH.** The California Office of Health Information Integrity (CalOHII) requests the transfer of three investigator positions and their associated workload and responsibilities to the Department of Public Health (DPH). The purpose of this transfer is to improve efficiency and increase productivity by combining the authority and resources of two programs charged with enforcing medical privacy violations. The proposal requests the reduction of \$306,000 in reimbursement authority. DPH will submit a separate proposal to request an increase in expenditure and position authority to take over these activities. Corresponding trailer bill language accompanies this request.

OFFICE OF SYSTEMS INTEGRATION

Description of Office. The Office of System Integration's (OSI's) mission is to procure, manage and deliver technology systems that support the delivery of health and human services to Californians.

In 2005, the Office of Systems Integration (OSI) was established to manage a portfolio of large, complex health and human services information technology projects. The OSI provides project management, oversight, procurement and support services for a multi-billion dollar portfolio of high criticality projects.

In this capacity, OSI coordinates communication, collaboration and decision making among project stakeholders and program-side sponsors of the projects. OSI manages the procurement, contract negotiations and contract management aspects of the acquisition of technology systems and services. After the procurement phase, OSI oversees the design, development, governance and implementation of IT systems which serve health and human services programs.

Since its inception, OSI has developed a track record of successfully managing and deploying large, complex, mission critical systems to support health and human services programs at the state, federal and local level.

Overview of Department's Major Areas

This Office provides project management services for automation projects for the Department of Social Services, and for the Employment Development Department, including:

- Child Welfare Services/Case Management System
- Statewide Automated Welfare System
- Statewide Fingerprint Imaging System
- Electronic Benefit Transfer System
- Case Management, Information and Payrolling System
- Unemployment Insurance Modernization Project

The Assembly will review the status, budgets, and any issues with the automation systems managed by OSI as part of the regular subcommittee review process.



ENVIRONMENTAL PROTECTION, NATURAL RESOURCES, AND ENERGY

This section discusses significant budget issues within the California Environmental Protection Agency (Cal/EPA), the Natural Resources Agency, the California Public Utilities Commission (CPUC), and the California Department of Food and Agriculture (CDFA). Cal/EPA is charged with developing, implementing and enforcing the state's environmental protection laws that ensure clean air, clean water, clean soil, safe pesticides and waste recycling and reduction. The mission of the Natural Resources Agency is to restore, protect and manage the state's natural, historical and cultural resources for current and future generations. The CPUC regulates privately owned electric, natural gas, telecommunications, water, railroad, rail transit, and passenger transportation companies. The CDFA's mission is to promote and protect a safe, healthy food supply, and enhance local and global agricultural trade, with a commitment to environmental stewardship. This section highlights two major Administration proposals that cross-cut a number of agencies and departments — the Cap-and-Trade Investment Plan and implementation of the Governor's Water Action Plan. It also discusses a few other key proposals, including reform of the Beverage Container Recycling Program and the expansion of the oil spill response program. Following this section, each department's budget and proposals are summarized briefly.

Major Policy Issues the Assembly May Wish to Consider:

- Should the Governor's proposal to use \$250 million of ongoing portion of Cap and Trade revenues for High Speed Rail be approved?
- Should the budget repay more of the \$500 million Cap and Trade loan than the \$100 million proposed?
- While the Administration's Cap-and-Trade Invest Plan captures the "allowable" uses of cap-and-trade funding, does the Plan distribute revenue appropriately and should the Legislature consider prioritizing funding to ensure the "biggest bang for the buck?"
- With the advent of the drought state of emergency, should the Assembly develop a drought action plan to address the urgent consequences of the drought, such as the risks to small drinking water systems?
- Does the Assembly concur with the priorities for long-range funding in the Governor's Water Action Plan?

Cap and Trade Investment Plan

The goal of the State's climate plan is to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The cap-and-trade program is a key element in this plan. It sets a statewide limit or cap on the sources of GHGs and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. Currently, GHG emissions from electricity and large industrial sources are subject to the cap. As part of its program, the California Air Resources Board (CARB) will allocate free allowances to the State's large industrial emitters as well as the State's electric utilities in order to reduce the economic impact of the cap-and-trade program. Based on the draft update to the AB 32 Scoping Plan, the cap-and-trade program will be responsible for approximately 30 percent of the required GHG emission reductions to meet the AB 32's 2020 goal.

To date, the California Air Resources Board (CARB) has held five auctions of GHG emission allowances, which resulted in \$1.368 billion in revenues: \$532 million in proceeds to the state and \$836 million directly to investor-owned utilities. Future quarterly auctions are expected to raise additional revenue.

AB 1532 (Pérez), Chapter 807, Statutes of 2012, directed the Department of Finance (DOF) to provide a three-year investment plan for auction proceeds in the May Revision, 2013. Further, SB 535 (De Leon), Chapter 830, Statutes of 2012, requires the investment plan allocate a minimum of 25 percent of the available monies in the fund to projects that provide benefits to identified disadvantaged communities and a minimum of 10 percent of the available moneys in the fund to projects located within identified disadvantaged communities.

The Governor's Budget proposes to invest \$850 million of cap-and-trade auction proceeds to support existing and pilot programs that will "promote GHG reductions and meet SB 535 goals." This amount includes the repayment of \$100 million that was loaned to the General Fund in 2013-14, with the remaining balance purportedly being repaid within the next few years.

Cap-and-Trade Expenditure Plan

(Dollars in Millions)

Activity	Department	Amount
High-Speed Rail (HSR)	High-Speed Rail Authority	\$250
Low-Emission Vehicle Rebates	CARB	200
Sustainable Communities Grants	Strategic Growth Council (SGC)	100
Low-Income Home Energy Assistance Program	Department of Community Services and Development	80
Intercity Rail Grants	Caltrans	50
Fire Prevention and Urban Forestry	Department of Forestry and Fire Protection (CalFIRE)	50
Wetlands Restoration	Department of Fish and Wildlife (DFW)	30
Waste Diversion	Department of Resources Recycling and Recovery (CalRecycle)	30
Energy Efficiency Upgrades In State Buildings	Department of General Services (DGS)	20
Reducing Agricultural Waste	CDFA	20
Water Use Efficiency	Department of Water Resources (DWR)	20
Total		\$850

The Governor's overall approach, with the exception of high-speed rail (HSR) and a few specific projects, is to let various departments expand existing programs that reduce GHG emissions through a competitive grant process. The Governor's cap-and-trade expenditure plan aims to address "both near-term emission reductions and projects that support California's longer-term climate targets." The plan incorporates the categories of funding included in AB 1532, but

further evaluation is needed to determine how effectively it meets the SB 535 goal of investment in identified disadvantaged communities. A more detailed accounting of cap-and-trade proposals follows:

- **High-Speed Rail** — \$250 million for the Central Valley initial segment and further environmental and design work on the statewide system. The Budget proposes legislation to provide an ongoing state commitment of cap-and-trade proceeds to high-speed rail, which will leverage additional federal support for the project and facilitate future phases of the initial operating segment from Merced to the San Fernando Valley.
- **Low-emission Vehicle Rebates** — \$200 million to CARB for grants to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. The CARB administers existing programs that provide rebates for zero-emission cars and vouchers for hybrid and zero-emission trucks and buses. This proposal will respond to increasing demand for these incentives, as well as provide incentives for the pre-commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.
- **Sustainable Communities Grants** — \$100 million in local assistance funding to support regions in the implementation of the sustainable communities strategies required by SB 375 (Steinberg), Chapter 728, Statutes of 2008, and to provide similar support to other areas with GHG reduction policies, but not subject to SB 375 requirements. The Strategic Growth Council (SGC) will coordinate this program with programmatic work performed by a multi-agency team of departments, including the Department of Transportation, the California Transportation Commission, the Department of Housing and Community Development, and the Natural Resources Agency. Funds will be directed toward projects that reduce GHG emissions by increasing transit ridership, active transportation (walking/biking), affordable housing near transit stations, preservation of agricultural land, and local planning that promotes infill development and reduces the number of vehicle miles traveled. The stated Program goal is that at least 50 percent of the total funds benefit disadvantaged communities.
- **Low-Income Home Energy Assistance Program** — \$80 million to the Department of Community Services and Development to assist in the installation of energy efficiency and renewable energy projects in low-income dwellings within disadvantaged communities. Weatherization measures typically include weather-stripping, insulation, caulking, water heater blankets, refrigerator replacement, electric water heater repair/replacement, and heating and cooling system repair/replacement. Renewable energy measures include installation of solar water heater systems and photovoltaic systems. This proposal will serve a mix of single- and multi-family dwellings, leveraging existing federal Low Income Home Energy Assistance Program and Weatherization Assistance Program funds, workforce development agency funding, utility-funded incentives, and other similar resources.
- **Intercity Rail Grants** — \$50 million to Caltrans to administer a competitive grant program for existing rail operators for capital improvements to integrate rail systems, including those located in disadvantaged communities, and provide connectivity to the high-speed rail system.

- **Fire Prevention and Urban Forestry**— \$50 million to CalFIRE to support urban forests in disadvantaged communities and forest health restoration and reforestation projects that reduce wildfire risk and increase carbon sequestration. This proposal seeks to enhance forest health and reduce fuel loads in light of climate change impacting wildfire intensity and damage across the landscape.
- **Wetlands Restoration**— \$30 million to DFW to implement projects that provide carbon sequestration benefits, including restoration of wetlands (including those in the Delta), coastal watersheds and mountain meadows. These types of projects are also identified in the Water Action Plan as integral to developing a more sustainable water management system statewide.
- **Waste Diversion** — \$30 million to CalRecycle to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment in new or expanded clean composting and anaerobic digestion facilities is necessary to divert more materials from landfills, a significant source of methane emissions. These programs also support the state's 75 percent solid waste recycling goal.
- **Energy Efficiency Upgrades in State Buildings** — \$20 million to DGS to implement Executive Order B-18-12 that requires state agencies to reduce GHG emissions by 10 percent by 2015 and 20 percent by 2020. Funds will assist state agencies in the construction of zero net energy state buildings, reduction of grid-based energy purchases at state-owned buildings, and the use of clean, on-site power generation, such as fuel cells, solar photovoltaic, solar thermal, and wind power generation.
- **Reducing Agricultural Waste** — \$20 million to CDFA to support projects that reduce GHG emissions from the agriculture sector by capturing GHGs, harnessing GHGs as a renewable bioenergy source, improving agricultural practices and promoting low carbon fuels, agricultural energy, and operational efficiency. This proposal will support: 1) the design and construction of dairy digester systems; 2) research and technical assistance on reducing nitrous oxide emissions, nitrification inhibitors, water and nitrogen movement in the environment, and evaluation of water and nitrogen management practices; and 3) the development of fuel quality specifications and standards for renewable and zero emissions systems, such as biofuels produced from dairy digesters and other agricultural waste.
- **Water Use Efficiency** — \$20 million to DWR for water and infrastructure efficiency projects that also result in energy savings. This proposal will provide additional funding for grants that support water use efficiency projects, such as leak loss detection and repair projects that have a demonstrated ability to reduce GHG emissions, with consideration given to projects that help address critical water supply needs of disadvantaged communities. The proposal will also support efficiency upgrades at two State Water Project facilities, Thermalito and Hyatt.

The "Biggest Bang for the Buck?"

The Legislature may wish to assess whether the proposed allocations give the "biggest bang for the buck." For example, questions have been raised about whether HSR will produce emissions reductions within the AB 32 time period. Additionally, the HSR Authority estimates that the 2050 emissions reduction estimate for HSR is between 1.2 and 1.9 million metric tons of carbon dioxide equivalent per year. This is a relatively small impact, when compared to other programs and regulations listed in the 2008 Climate Change Scoping Plan adopted by CARB,

such as the "Pavley Light-Duty Vehicle Standards," that are expected to reduce 31.7 million metric tons of carbon dioxide equivalent each year by 2020.

The Governor suggests that spending cap-and-trade revenue on HSR supports "California's longer-term climate targets." However, it is important to note that the Legislature has not authorized more strenuous emission reduction targets beyond 2020. Since any emission reductions from HSR would not occur until after the AB 32's 2020 deadline, LAO argues that using cap-and-trade funding for HSR could be legally risky and would not serve to achieve the primary goal of AB 32 which is to reduce GHG emissions to 1990 levels by 2020.

To maximize GHG emissions reductions, departments directed to allocate funding need the proper tools to assess the GHG reduction potential of the various proposals. The Budget includes a proposal seeking positions and funding for CARB to "quantify and evaluate the benefits of Greenhouse Gas Reduction Fund investments." While back-end evaluations are important, having the information prior to the appropriation of funds seems prudent. The Legislature may wish to consider directing the CARB to develop guidelines, as the Energy Commission has for the implementation of Proposition 39 to help ensure consistent metrics and methodologies are used across the agencies receiving the funding.

Current law, SB 1018 (Committee on Budget and Fiscal Review), Chapter 39, Statutes of 2012, requires a state agency, prior to expending any money appropriated to it by the Legislature from the Greenhouse Gas Reduction Fund (GGRF), to prepare a record detailing how expenditures will meet specific metrics. The Legislature may wish to direct CARB to prepare guidelines per similar metrics and instruct CARB to include directions to agencies with regard to preparing these reporting requirements.

Finally, the Legislature may also wish to consider a repayment schedule for the balance of the cap-and-trade loan to the General Fund and further specificity with respect to the \$100 million directed for sustainable communities grants.

Water Action Plan

In October 2013, the Governor rolled out his vision for a five-year approach to water policy in his draft Water Action Plan. The plan addresses multiple water challenges facing the state, including limited and uncertain water supplies, poor surface and groundwater quality, impaired ecosystems, and the high risk of flooding. With the Governor's declaration of a drought State of Emergency, certain aspects of the plan take on even greater significance, including water supply and storage, groundwater monitoring/management, and water conservation activities. The Governor's budget proposes \$618.7 million, mostly in existing bond funds, to begin implementing the plan.

Water Action Plan

(Dollars in Millions)

Activity	Department	Fund Source	Amount
Integrated Regional Water Management (IRWM) Grants	DWR	Proposition 84 bond	\$472.5
Flood Protection	DWR	Proposition 1E bond	77.0
Wetlands and Watersheds Restoration	DFW	Cap-and-trade auction revenues	30.0
Water Quality Grants for Disadvantaged Communities	State Water Resources Control Board (SWRCB, also referred to as the Water Board)	Various special funds	11.0
Water Energy Efficiency	DWR	Cap-and-trade auction revenues	20.0
Groundwater Monitoring And Management	SWRCB, DWR	General Fund, Waste Discharge Permit Fund	7.8
Salton Sea Restoration Maintenance	DFW	Salton Sea Restoration Fund	0.4
Total			\$618.7

Details of the plan:

- **Integrated Regional Water Management (IRWM) Grants** — \$472.5 million to DWR for grants to support local projects that increase regional self-reliance and result in integrated, multi-benefit solutions for supporting sustainable water resources. The IRWM program will provide incentives for both regional integration and to leverage local financial investment for water conservation efforts, habitat protection for local species, water recycling, storm water capture, and desalination projects. No less than 10 percent of the funds will be used to address critical water needs of disadvantaged communities.
- **Flood protection** — \$77 million to DWR for the FloodSAFE Program, a long-term strategic initiative developed to reduce flood risk in California. The funds will be used to improve flood emergency response throughout California, including response and recovery time from a catastrophic levee failure event in the Delta, and support statewide flood management planning. The Budget also proposes to continue various existing flood control projects and feasibility studies, including the Folsom Dam Modifications Project.
- **Wetlands and Watersheds Restoration** — \$30 million (cap-and-trade revenues) to DFW to implement projects that provide carbon sequestration benefits, including restoration of wetlands, coastal watersheds, and mountain meadows (also referenced in the Cap-and-Trade Investment Plan discussion above).
- **Water Quality Grants for Disadvantaged Communities** — \$4 million to the Water Board to provide safe drinking water to severely disadvantaged communities with contaminated drinking water supplies and \$7 million for grants to small and severely disadvantaged communities to comply with water quality regulations, protect surface and groundwater quality, and reduce threats to public health and safety.
- **Water-Energy Efficiency** — \$20 million (cap-and-trade revenues) to DWR for water and infrastructure efficiency projects that also result in energy savings (also referenced in the Cap-and-Trade Investment Plan discussion above).

- **Groundwater Monitoring and Management.** Groundwater basins are the state's largest reservoir, ten times the size of all its surface reservoirs combined. In an average year, groundwater provides 30 percent of California's water supply and much more in dry periods. Eighty percent of Californians rely, at least in part, on groundwater for their drinking water, and some cities and rural areas rely entirely on groundwater. When managed sustainably, groundwater can provide a crucial buffer against drought. While some areas of the state, regional and local agencies manage groundwater well, in other areas, groundwater overdraft is causing subsidence, permanent reductions in underground storage capacity, seawater intrusion and other water quality problems, and environmental damage. The Governor proposes to support efforts to improve the management of groundwater by funding:
 - \$1.9 million and ten positions to act as a backstop when local or regional agencies are unable or unwilling to sustainably manage groundwater basins;
 - \$3 million to support the Priority Basin Project component of the Groundwater Ambient Monitoring and Assessment Program. The Priority Basin Project provides a comprehensive assessment of groundwater quality in aquifers used for public drinking-water supply statewide; and
 - \$2.9 million and 12 positions to continue the groundwater monitoring program and develop an online well completion report submission system. The data and analyses will provide state, regional, and local water managers with more efficient and timely access to hydrogeologic and well construction data that will improve groundwater management plans, identify and evaluate changes in groundwater supplies, and more effectively integrate groundwater use with surface water use. The expanded groundwater information will support state and local efforts to evaluate anticipated impacts of climate change, drought conditions, and water supply reliability.
- **Salton Sea Restoration Maintenance** — \$400,000 to operate and maintain species conservation habitat ponds at the Salton Sea. This proposal continues a pilot project to create habitat through the construction of 800 acres of ponds, which will protect fish and wildlife, mitigate air quality impacts, and improve water quality.

Dealing with the Drought.

The Governor's drought proclamation asserts that the state's Drinking Water Program will work with local agencies to identify communities that may run out of drinking water, and will provide technical and financial assistance to help these communities address drinking water shortages. While the Water Action Plan, discussed above, addresses long-range water challenges, the Assembly may wish to consider developing a drought action plan to address the urgent consequences of the drought, such as the risks to small drinking water systems.

Development of Water Financing Strategy.

The integrated approach taken in the Water Action Plan has merit and is impressively bold in its thoughtful approach to groundwater issues. The Plan states that it will develop a water financing strategy that leverages various sources of water-related project funding, including cap-and-trade auction revenue, energy efficiency funds, user and beneficiary fees, polluter fees, local measures, and other sources. The Legislature may want to ask the Administration on the proposed time-frame and process for development of this strategy, including how Legislative priorities are anticipated to be integrated.

Reorganization of the Drinking Water Program

Currently, programs designed to protect water quality for drinking and other purposes are housed in multiple agencies, reducing their effectiveness. The Budget proposes to transfer \$200.3 million (\$5 million General Fund) and 291.2 positions for the administration of the Drinking Water Program from the Department of Public Health to the Water Board. This transfer of the Drinking Water Program is consistent with the Assembly's Budget Blueprint and AB 145 (Perea), 2013. Establishing a single water quality agency should enhance accountability for water quality issues and better provide technical and financial assistance to help communities, especially small, disadvantaged communities.

Beverage Container Recycling Program Reform

The Beverage Container Recycling Program is one of the state's most successful recycling and environmental protection efforts. The state's recycling rate currently exceeds 82 percent. Because of the state's high recycling rate and mandated program payments, expenditures from the Beverage Container Recycling Fund (BCRF) now exceed revenues by approximately \$100 million. The Budget proposes several reforms to support the fiscal reliability of the program, including the following:

- **Processing Fee Subsidy Phase-out** — Currently, the program subsidizes glass and plastic manufacturers by offsetting a portion of the cost to recycle containers. Offset payments that subsidize manufacturer costs will be reduced by \$26.3 million in 2014-15, another \$26.7 million in 2015-16, and by \$14 million in 2016-17 to reflect the full elimination. The three-year phase out is proposed to provide the industry with time to adjust to these reductions.
- **Administration Fee Payment Elimination** — Administrative fees paid to processors and recyclers will be eliminated, while also relieving their administrative burden by requiring and facilitating electronic filing. Projected savings are \$13 million in 2014-15, with ongoing savings of \$26 million beginning in 2015-16.
- **Redirection of Funds to Support Local Recycling and Deter Fraud** — Eliminates existing city and county payments and redirects funds to increase a competitive grant program by \$3.5 million and establish a \$7 million Recycling Enforcement competitive grant program.
- **Local Conservation Corps Funding Diversification** — Replaces \$15 million of existing Beverage Container Recycling Fund grants to local conservation corps by redirecting a like amount of other special funds to support local corps recycling programs. New funding for local corps programs will be provided by the Tire Recycling Management Fund (\$5 million), the Electronic Waste Recovery and Recycling Account (\$8 million), and the Used Oil Recycling Fund (\$2 million).

Oil Spill Response Program

Rail shipments of oil, including North Dakota Bakken oil, are expected to significantly increase from 3 million barrels to approximately 150 million barrels per year by 2016. This type of oil is extremely flammable and its transport increases the risk of serious accidents, similar to the rail incident in Lac-Mégantic, Quebec in July 2013.

The Governor's Budget proposes to expand the existing oil spill program to address the increased risk of inland oil spills by supporting prevention, emergency response preparedness, cleanup, and enforcement measures. Specifically, the Governor proposes using \$6.7 million Oil Spill Prevention and Administration Fund and 38 positions to enhance the Department's inland oil spill prevention, preparedness, and response capabilities. The proposal also includes a \$500,000 increase for the Oil Wildlife Care Network, which protects wildlife affected by marine oil spills. This additional funding will be supported by eliminating the January 2015 sunset of the existing 6.5 cent per barrel fee and expanding the fee payer base to include the owners of crude oil at point of entry into refineries.

Five-Year Infrastructure Plan

The Governor released the Administration's 2014 Five-Year Infrastructure Plan in conjunction with the Budget. It includes the Administration's priorities for the next five years for major infrastructure programs, including transportation and HSR, state institutions, judicial branch, natural resource programs and education. The Governor's Budget includes an \$815 million (\$800 million General Fund) package of one-time investments in critical deferred maintenance of state infrastructure, including the following proposals in the resources area:

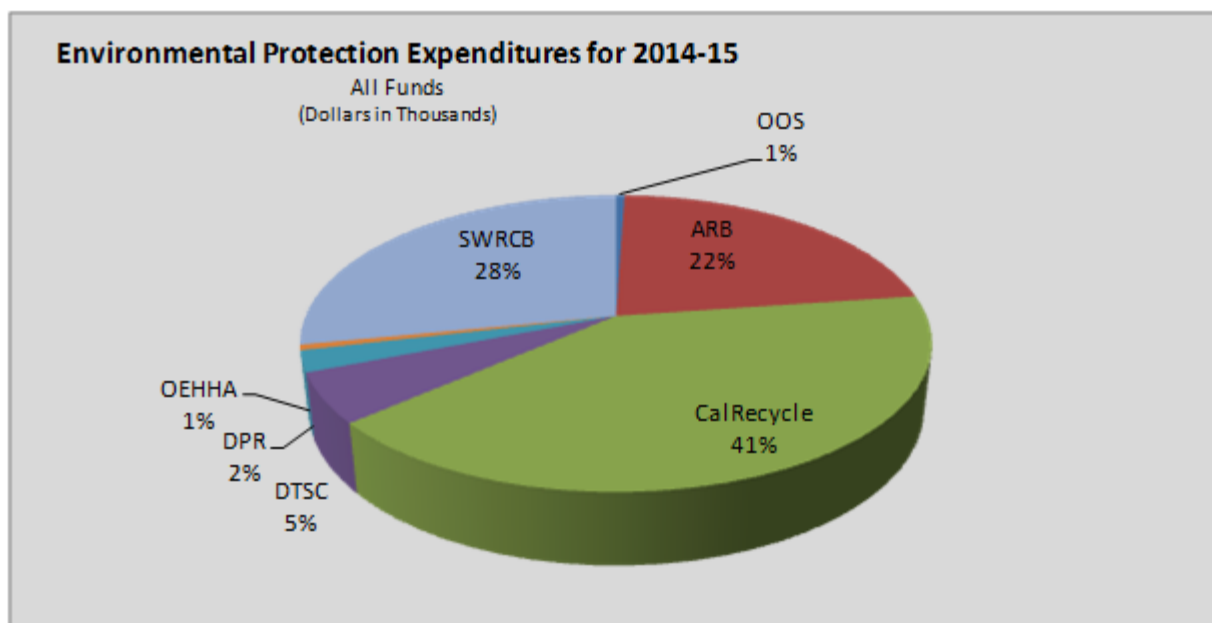
- Department of Parks and Recreation: \$40 million for deferred maintenance at state parks;
- Department of Forestry and Fire Protection: \$3 million; and
- Department of Food and Agriculture: \$2 million

The Budget specifies that the agencies identified shall provide DOF with a list of deferred maintenance projects for funding use. The DOF shall review and provide the approved list to the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds.

ENVIRONMENTAL PROTECTION AGENCY

California Environmental Protection Agency programs restore and protect environmental quality, and protect public health. The Secretary coordinates the State's environmental regulatory programs and ensures fair and consistent enforcement of environmental law, which safeguard the State's residents and promotes the state's economic vitality.

The Governor's Budget proposes \$3.6 billion (\$54 million General Fund, \$3.5 billion other funds) and 5,490.2 positions for the California Environmental Protection Agency (Cal/EPA) boards, departments, and offices.



AIR RESOURCES BOARD

The Air Resources Board (CARB or Board) has primary responsibility for protecting air quality in California, as well as implementation of the California Global Warming Solutions Act of 2006, AB 32 (Núñez), Chapter 488, Statutes of 2006. This responsibility includes establishing ambient air quality standards for specific pollutants, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and industrial sources established by the Board and local air pollution control districts.

The Governor's Budget proposes \$801 million and 1,344.7 positions for support of the Board. The significant increase in the Greenhouse Gas Reduction Fund (GGRF) is related to the multiple GHG reduction proposals (discussed in the Cap-and-Trade discussion above and below). The 77 percent increase in bond fund is due to the continued implementation of Proposition 1B (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	%0
Motor Vehicle Account, State Transportation Fund	113,740	121,514	128,101	6,587	5
Air Pollution Control Fund	140,014	125,666	114,414	(11,252)	(9)
Bond Funds	19,012	135,881	240,000	104,119	77
Greenhouse Gas Reduction Fund	0	31,314	204,651	173,337	554
Cost of Implementation Account, Air Pollution Control Fund	0	36,424	38,241	1,817	5
Other	69,940	101,411	75,894	(25,517)	(25)
Total Expenditure	\$342,706	\$552,210	\$801,301	\$249,091	45%
Positions	1,273.20	1,280.20	1,344.70	65	5

Major Provisions

GHG Emissions Reductions through Low Carbon Transportation. The Governor's Budget proposes \$30 million, Greenhouse Gas Reduction Fund (GGRF), in 2013-14 and \$200 million (GGRF) to support activities promoting GHG emissions reductions in the transportation sector (see Cap-and-Trade Investment Plan discussion above).

Cap-and-Trade Auction Proceeds — Administration. The Governor's Budget proposes \$2.63 million and 10 positions (GGRF) for activities related to implementation of the new GGRF, including: fiscal management of the GGRF; technical analysis to quantify and evaluate the benefits of GGRF investments; and legal review to ensure a legally defensible implementation of GGRF investments in sustainable communities projects.

Cap and Trade Market Surveillance. The Governor's Budget requests \$702,000 and three positions (GGRF), including \$200,000 per year in contract funds, to expand the scope of internal activities to handle surveillance of the carbon market and the associated enforcement caseload in response to increased market volumes and linkage with Quebec.

In-State Greenhouse Gas Reductions — Carbon Capture. The Governor's Budget proposes \$400,000 in annual contract money and eight positions (Cost of Implementation Account) to support the development and implementation of quantification methodologies for in-state GHG reductions, including carbon capture and storage and in-state offset protocols from non-capped sectors.

Implementation of SB 4 (Pavley) — Hydraulic Fracturing. The Governor's Budget requests \$300,000 in contract funding and six positions (Oil, Gas, and Geothermal Administrative Fund) to support and implement hydraulic fracturing and well stimulation requirements set forth in SB 4 (Pavley), Chapter 313, Statutes of 2013.

Other Key Provisions

- **Heavy-Duty Trucks: On-Board Diagnostics Implementation and Enforcement.** The Governor's Budget requests \$1.23 million and seven positions (Motor Vehicle Account) to implement the heavy-duty, on-board diagnostic regulation.
- **Advanced Clean Cars Program.** The Governor's Budget proposes \$577,000 and 3.5 positions (Motor Vehicle Account) to implement the Advanced Clean Cars (ACC) Program and enhance the evaporative regulations portion of the ACC Program due to proposed changes by the U.S. EPA.
- **Enforcement of Diesel Emissions Reduction Regulations.** The Governor's Budget requests \$1.2 million and seven positions (Motor Vehicle Account) to support increasing workloads associated with the enforcement of diesel emissions reduction regulations.
- **Diesel Emission Regulation Implementation Support.** The Governor's Budget proposes \$682,000 and four positions (Motor Vehicle Account) to meet regulatory implementation and outreach needs related to the phase-in of diesel regulations affecting trucks, trailers, and small fleet owners/operators.
- **Verification Regulations for Diesel Retrofits.** The Governor's Budget requests \$187,000 and one position (Motor Vehicle Account) to implement new provisions of the Verification Regulations for diesel engine retrofits.
- **Continuing Implementation of Proposition 1B (The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act Of 2006).** The Governor's Budget proposes a new appropriation of \$240 million from reverted bond authority based on the Budget Act of 2009 for the Goods Movement Emission Reduction Program established pursuant to Proposition 1B.
- **Funding Shift — Portable Equipment Registration Program.** The Governor's Budget requests a realignment from Reimbursement funding to Air Pollution Control Fund for the Portable Equipment and Registration Program. This would be a net zero cost to the State.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials, including beverage containers, electronic waste, waste tires, used oil, and other materials. CalRecycle also promotes the following waste diversion practices: 1) source reduction; 2) recycling and composting; and, 3) reuse. The Budget includes \$1.47 billion and 728.6 positions for support of the Department.

As discussed on page 135, due to the state's high recycling rate and mandated program payments, expenditures from the Beverage Container Recycling Fund (BCRF) exceed revenues by approximately \$100 million. The Budget proposes several reforms to support the fiscal reliability of the program. The Budget also includes \$30 million for recycling and composting activities that reduce GHG emissions.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
California Beverage Container Recycling Fund	1,216,295	1,193,473	1,143,243	(50,230)	(4)
Greenhouse Gas Reduction Fund	0	0	20,000		
Greenhouse Gas Reduction Revolving Loan Fund	0	0	10,000		
Other	244,218	282,848	298,522	15,674	6
Total Expenditure	\$1,460,513	\$1,476,321	\$1,471,765	(\$4,556)	(0%)
Positions	630	694.6	728.6	34	5

Major Provisions

Beverage Container Recycling Fund Reform, Phase II. The Governor's Budget proposes 12 positions and \$1.48 million, Beverage Container Recycling Fund (BCRF), and \$1.2 million ongoing to develop and implement Phase II of reforms to the Beverage Container Recycling Program, including restructuring administrative and handling fees, a phased elimination of the processing fee offset, creating a Recycling Enforcement Grant Program, and changing the funding sources for local conservation corps payments (discussed on page 135).

GHG Emissions Reductions through Recycling and Composting. The Governor's Budget requests \$30 million (GGRF) and \$30 million in 2015-16 to support activities promoting GHG reductions in the waste management sector. Funds will support the expansion of existing, and establishment of new, organic materials management and recyclable commodities manufacturing facilities, which will result in reduced methane emissions from landfills and further GHG reductions in upstream management and manufacturing processes (discussed on page 131).

Other Key Provisions

- **Initial Transition for Support of DORIIS.** The Governor's Budget requests two limited term positions and \$258,000 in additional authority to begin transition from contractor staff to State staff support of the Division of Recycling Integrated Information System (DORIIS). This proposal yields an annual savings of approximately \$250,000.
- **Increase BCRF Revenue through Increased Audit Coverage.** The Governor's Budget proposes five, three-year limited term positions and \$566,000 (BCRF) to increase audit coverage of Beverage Manufacturers and Distributors to better protect the integrity of the BCRF. The emphasis will be on collecting revenues owed to CalRecycle and mitigating risk to the Fund.
- **E-Waste Recycling Fund Fraud Investigations.** The Governor's Budget requests \$500,000 of expenditure authority to contract with other regulatory departments to enhance programmatic and fiscal integrity of the Covered Electronic Waste Recycling Program. Specifically, CalRecycle is requesting to establish an Inter-Agency Agreement with the California Department of Food and Agriculture, Division of Measurement Standards to fund auditors and field inspectors to assess operational conformity with applicable recordkeeping requirements and ensure compliance with Weighmaster rules. CDFA is in agreement with this request and will not require additional reimbursement authority to implement this proposal.
- **California Tire Recycling Management.** The Governor's Budget proposes provisional budget language for new, two-year grant appropriations from the California Tire Recycling Management Fund (Tire Fund) to allow flexibility in the encumbrance of grants and the payment of funds. This request does not include any additional fiscal resources.
- **Used Mattress Recovery and Recycling Program.** The Governor's Budget proposes 6.5 positions and \$595,000 on-going in the Used Mattress Recycling Fund to implement the CalRecycle responsibilities under the mattress stewardship law pursuant to SB 254 (Hancock), Chapter 388, Statutes of 2013.
- **Rubberized Asphalt Concrete Marketing Development Act.** The Governor's Budget requests \$5.2 million in on-going expenditure authority (Tire Fund) and 1.5 three-year limited term positions to allow CalRecycle to increase funding for Rubberized Asphalt Concrete grants in order to spend down an existing Tire Fund balance.

THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board (SWRCB or Board) and the nine Regional Boards preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. The Governor's Budget proposes \$675 million (\$15 million General Fund) and 1,505 positions for support of the Board. Decreases in the Underground Storage Tank Cleanup Fund are the result of aligning authority with the sunset of a fee increase. The increase in the General Fund appropriation is due to the transfer of the Drinking Water Program to the Water Board (\$5 million) and the Water Action Plan's groundwater protection proposal (\$1.9 million), discussed above and below. The large increase in Federal Funds and bond appropriation is also due to the drinking water reorganization. The reduction in Underground

Storage Tank Cleanup Funds reflects the sunset of the temporary storage fee increase (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$14,540	\$15,008	\$22,647	\$7,639	51%
Federal Funds	209,899	144,352	295,545	151,193	105
Underground Storage Tank Cleanup Fund	233,891	281,522	233,206	(48,316)	(17)
Waste Discharge Permit Fund	100,480	109,928	116,040	6,112	6
State Water Pollution Control Revolving Fund	(215,440)	(2,682)	(2,682)	0	0
Bond Funds	32,744	133,288	182,346	49,058	37
Other	77,110	101,328	165,610	64,282	63
Total Expenditure	\$453,224	\$782,744	\$1,012,712	\$229,968	29%
Positions	1,496.20	1,510.40	1,864.10	354	23

Major Provisions

Reorganization of the Drinking Water Program. The Governor's Budget proposes to transfer \$200.3 million and 291 positions for the administration of the Drinking Water Program from the Department of Public Health to the Water Board (discussed on page 135).

Enforcement of Marijuana Cultivation Laws. The Governor's Budget proposes \$1.8 million and 11 positions (Waste Discharge Permit Fund) to improve the prevention of illegal stream diversions, discharges of pollutants into waterways, and other water quality impacts associated with marijuana production. Currently, marijuana cultivation is threatening water quality and the sensitive habitat of endangered species. This proposal will be a coordinated effort with the Department of Fish and Wildlife.

Groundwater Resource Protection. The Governor's Budget requests \$1.9 million and 10 positions (General Fund) to begin the implementation of a program to protect groundwater resources from the unreasonable diversion and use of water that causes overdraft conditions or unreasonable effects on public trust resources (discussed on page 134).

Groundwater Monitoring Program for Oil and Gas Production Areas. The Governor's Budget requests a funding shift from the Department of Conservation's, Division of Oil, Gas, and Geothermal Resources (DOGGR) of \$6.2 million for 14 positions to establish and implement a comprehensive regulatory groundwater monitoring and oversight program for oil and gas field activities per SB 4 (Pavley), Chapter 313, Statutes of 2013.

Provide Planning, Design, and Construction Grants for Small Disadvantaged Community Waste Water Projects. The Governor requests a permanent augmentation of \$7 million (Small Community Grant Fund) to assist small, disadvantaged communities with their wastewater needs (see Water Action Plan discussion above).

Prop 50 and 84 Drinking Water Program Funding. As part of the reorganization plan to move the Drinking Water Program to the Water Board, the Governor requests a \$110.3 million local

assistance appropriation and \$209,000 State Operations appropriation for a two-year extension of two limited-term positions due to expire June 30, 2014.

AB 21 Implementation. As part of the Drinking Water reorganization, the Governor's Budget proposes \$93,000 and one position (General Fund) to promulgate rulemaking packages and develop other guidance documents related to AB 21 (Alejo), Chapter 628, Statutes of 2013, and to implement the program established by the bill.

Other Key Provisions

- **401 Water Quality Certification Program Compliance Monitoring.** The Governor's Budget requests \$983,000 and 10 positions (Waste Discharge Permit Fund) to address recommendations made by the California State Auditor regarding the need for more consistent compliance monitoring and improved project record keeping.
- **GAMA Program Fund Shift.** In support of the Water Action plan, the Governor's Budget requests \$3 million in on-going additional Waste Discharge Permit Fund (WDPF) spending authority to support the implementation of the Groundwater Ambient Monitoring and Assessment (GAMA) Program's Priority Basin Project to replace the soon to be exhausted bond funds. The additional spending from the WDPF would require the Water Board to increase permit fees for discharges of waste that affect groundwater.
- **Department of Defense Fund Shift from Federal Fund Authority to Reimbursement.** The Governor proposes a shift of \$3.9 million for 19.1 positions at \$3.4 million and \$500,000 from Federal Trust Fund spending authority to Reimbursement spending authority to continue the ongoing oversight of cleanup activities at U.S. Department of Navy facilities.
- **Technical Bond Adjustments.** The Governor proposes several technical bond adjustments in Propositions 13, 40, 50, and 84.
- **Fund Shift for the SWPCRF Administrative Fund.** The Governor requests a permanent fund shift of \$3.6 million in state operation authority and seven existing positions from the Federal Capitalization Grant to the State Water Pollution Control Revolving Fund Administration Fund (CWSRF Administrative Fund).
- **Underground Storage Tank Cleanup Fund — Expiration of the Temporary Fee Increase.** The Governor's Budget proposes a decrease of \$48 million in State Operations from the Underground Storage Tank Cleanup Fund due to the expiration of the temporary storage fee increase.
- **Underground Storage Tank Petroleum Contamination Orphan Site Cleanup Fund — Technical Adjustments.** The Governor's Budget requests two technical adjustments to the Fund.
- **Technical Adjustment — SWAMP Administration, Quality Assurance, Quality Control and Data Management.** The Governor proposes 12 positions (Federal U.S. EPA Clean Water Act, Section 106 grant) to manage the Surface Water Ambient Monitoring Program (SWAMP). This proposal does not require additional funding as it redirects existing contract funds currently used for this purpose.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California citizens and environment from the harmful effects of toxic substances through restoring contaminated resources, enforcement, regulation and pollution prevention. The Governor's Budget proposes \$189 million (\$21 million General Fund) and 1,504 positions for support of the Department. The department's budget proposals focus on enhancing cost recovery efforts, rebuilding the hazardous waste tracking system and improving permitting processes.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$21,418	\$21,759	\$21,193	(\$566)	(3%)
Federal Funds	25,635	35,131	35,167	36	0
Hazardous Waste Control Account	44,705	52,088	55,713	3,625	7
Toxic Substances Control Account	43,578	43,721	44,051	330	1
Other	30,989	50,925	39,205	(11,720)	(23)
Total Expenditure	\$166,325	\$203,624	\$195,329	(\$8,295)	(4%)
Positions	869.6	941.1	966.6	26	3

Major Provisions

Cost Recovery. The Governor's Budget requests \$1.6 million and 14, two-year, limited term positions, Toxic Substances Control Account and Hazardous Waste Control Account (HWCA), to evaluate and take action on the backlog of unbilled/uncollected costs for site cleanup work dating back to the 1980s, and ensure timely billing and collection of future cost-recoverable expenditures.

Rebuild the Hazardous Waste Tracking System. The Governor's Budget proposes a one-time augmentation of \$1.36 million (HWCA) to rebuild the outdated Hazardous Waste Tracking System, which will allow the department to better track the generation, transportation and disposal of hazardous waste.

Hazardous Waste Manifest Error Correction. The Governor's Budget requests \$381,000 and 3.5 two-year limited term positions to correct errors in hazardous waste manifest information, which will help the Department verify that hazardous waste has reached the appropriate destination.

Improving Permitting Processes. The Governor's Budget proposes \$1.19 million and eight, two-year limited term positions (HWCA) to address its backlog of permitting work to ensure closure cost estimates are updated and adequate financial assurances are in place for hazardous waste treatment, storage and disposal facilities.

Progress on Enforcement? Over the past several years, a myriad of concerns have been raised about numerous deficiencies within DTSC's Hazardous Waste Management Program. While the budget proposals summarized above focus on several of these issues, more oversight of the Department's enforcement arm is necessary. For example, how is DTSC ensuring that Certified Unified Program Agencies (CUPAs) are properly and effectively implementing the hazardous waste program and that appropriate penalties and corrective actions are taken?

Further, what actions have been taken to make the enforcement program's information and processes more accessible to the public?

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

The Office of Environmental Health Hazard Assessment (OEHHA) protects and enhances public health and the environment through scientific evaluation of risks posed by hazardous substances. OEHHA's risk assessments provide state and local agencies with the scientific tools upon which to base risk management decisions. The Budget includes \$21.6 million and 129 positions for OEHHA.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$4,058	\$4,625	\$4,628	\$0	0%
Motor Vehicle Account, State Transportation Fund	3,571	4,086	4,064	(22)	(1)
Other	9,005	12,413	12,920	507	4
Total Expenditure	\$16,634	\$21,124	\$21,612	\$488	2%
Positions	119.9	125.4	129.4	4	3

Major Provision

Proposition 65 Reform. The Governor's Budget requests \$785,000 (Safe Drinking Water and Toxic Enforcement Fund) and four, limited term positions to revise Proposition 65 regulations and to develop a website that provides information to the public on exposure to listed chemicals. This proposal seeks to better inform the public about their exposures to chemicals that cause cancer or reproductive harm by revising existing regulations to take into consideration technological advances made over the last 25 years and by developing a website that will contain detailed information regarding listed chemicals as well as exposure pathways, risks, and avoidance measures.

THE DEPARTMENT OF PESTICIDE REGULATION

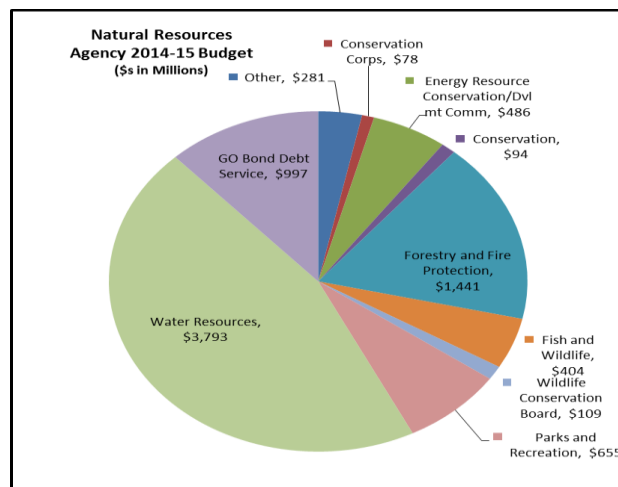
The Department of Pesticide Regulation protects public health and the environment by regulating all aspects of the sale and use of pesticides and by promoting reduced-risk pest management strategies. The Department ensures compliance with pesticide laws and regulations through its oversight of County Agricultural Commissioners, who enforce pesticide laws at the local level. The Governor's Budget proposes \$83.3 million and 387.8 positions for support of the Department.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Department of Pesticide Regulation Fund	71,771	79,298	80,237	939	1
Other	6,624	3,074	3,083	9	0
Total Expenditure	\$78,395	\$82,372	\$83,320	\$948	1%
Positions	384.5	387.8	387.8	0	0

- No budget change proposals were included in the Governor's Budget.

NATURAL RESOURCES AGENCY

The mission of the Resources Agency is to restore, protect, and manage the State's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all involved communities. The Secretary for Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 departments, boards, commissions, and conservancies.



The Governor's Budget proposes \$8.3 billion (\$2.2 billion General Fund) and 19,482.8 positions in total spending for the various entities within the Resources Agency. Total proposed state expenditures equal \$4.5 billion. This represents approximately 2.9 percent of the state budget.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources (DWR) protects conserves, develops, and manages California's water. The Department evaluates existing water resources, forecasts future water needs, and explores future potential solutions to meet ever-growing needs for personal use, irrigation, industry, recreation, power generation, and fish and wildlife. The Department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its proper use.

The Budget includes \$3.5 billion (\$100.9 million General Fund) and 3,468.7 positions for support of the Department. Reductions in bond expenditures are due to the near depletion of available bond funds. DWR's budget contains a significant portion of the Budget's \$618.7 million in expenditures related to the Governor's California Water Action Plan (CWP), including \$472.5 million in Integrated Regional Water Management (IRWM) grants and \$77 million for FloodSAFE (discussed above and below). The Budget also contains \$20 million for water-efficiency activities promoting GHG emission reductions (discussed above and below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$91,596	\$100,241	\$100,947	\$706	1%
DWR Electric Power Fund	937,775	988,555	956,368	(32,187)	(3)
Greenhouse Gas Reduction Fund	0	0	20,000	20,000	
Bond Funds	289,235	1,438,167	684,364	(753,803)	(52)
Other	922,063	1,332,882	1,761,589	428,707	32
Total Expenditure	\$2,240,669	\$3,859,845	\$3,503,268	(\$356,577)	(9%)
Positions	3,232.70	3,495.70	3,468.70	(27)	(1)

Major Provisions

Proposition 84 IRWM Local Assistance Balance of Funds. The Governor's Budget requests \$472.5 million, Proposition 84, Integrated Regional Water Management (IRWM), Local Assistance funds, to support a third and final round of the IRWM Implementation Grant Program. The CWP identified IRWM as one of the two key initiatives that is needed to address long-term water supply reliability for the State (discussed on page 133).

FloodSAFE Program. The Governor's Budget requests \$38 million (Prop 1E, Prop 84) to support FloodSAFE California, a long-term strategic initiative to reduce flood risk in California (discussed on page 133).

Greenhouse Gas Emissions Reductions Through Water-Efficiency Programs. The Governor's Budget requests \$20 million (GGRF) for two years to support activities promoting GHG emission reductions in the Energy Efficiency and Clean Energy sector (discussed on page 131).

Climate Change Portion of Multi-Benefit Planning and Feasibility Studies. The Governor's Budget requests \$1.2 million in reversions and new appropriations from Proposition 84 to continue the Climate Change Evaluation and Adaption Program.

Water Use Efficiency Program. The Governor's Budget proposes a three-year appropriation of \$5 million (Proposition 84 and 50) for water conservation activities, water recycling, water desalination, and water demand evaluation activities in support of the California Water Plan (CWP). In addition, the Governor's Budget requests \$400,000 (Proposition 50) for desalination grants.

Statewide Groundwater Elevation Monitoring Program. The Governor's Budget requests \$13.8 million (General Fund) in multi-year funding to support the continued implementation of the Statewide Groundwater Elevation Monitoring Program and create the Online Well Completion Report Submission System to replace the current method of accepting only paper copies of well completion reports (discussed on page 134).

Other Key Provisions

- **Delta Water Quality Improvement Program State Operations.** The Governor's Budget proposes a reversion of the remaining balance of approximately \$1.8 million of State Operations funds related to Proposition 84 to establish an annual appropriation of \$250,000 for fiscal years 2014-15 through 2019-20. These funds will be used for administering \$40 million in local assistance grants for projects at Franks Tract or other locations in the Delta to reduce salinity or other pollutants at agricultural and drinking water intakes.
- **Agricultural Drainage Water in the San Joaquin River.** The Governor's Budget proposes a multi-year request of \$37.5 million (\$930,000 for state operations to support existing positions and \$36.6 million in Proposition 84 local assistance) for implementing projects that reduce or eliminate discharges of subsurface agricultural drainage water from the San Joaquin Valley for the purpose of improving water quality in the San Joaquin River and the Delta.
- **Workplace Safety Program.** The Governor's Budget proposes \$3.95 million from various funds to support 23 new positions for establishing a comprehensive Safety System to reduce accidents and injuries at all department locations throughout the state.
- **Implementation of the Delta Stewardship Council's Delta Plan.** The Governor's Budget requests a baseline program increase of \$153,000 for distributed overhead and one position to facilitate the department's work associated with implementation of the Delta Plan.
- **CERES Environmental License Plate Funds (ELPF) Redirection for New Positions.** The Governor's Budget proposes three positions for the California Environmental Resources Evaluation System Program (CERES) and a transfer of \$380,000 in ELPF to provide environmental and scientific data and technology services and support.

- **Capital Outlay Projects.** The Governor's Budget requests approval for the following projects:

Project Title	Budget Year Amount (Dollars in Thousands)
Delta Flood Emergency Preparedness, Response, and Recovery Project	12,000
Folsom Dam Modification Project	25,759
Lower Cache Creek, Yolo County, Wooland Area Project	817
Lower San Joaquin River	241
Sutter Basin Feasibility Study	80
West Sacramento Project	130
Total Development Program	\$39,027

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The California Department of Forestry and Fire Protection's (CAL FIRE) mission is to serve and safeguard the people and protect the property and resources of California. CAL FIRE provides all hazard emergency (i.e., fire, medical, rescue and disaster) response for the public. The Department provides resource management and wild land fire protection services covering over 31 million acres of the State. It operates 228 fire stations and, on average, responds to over 5,600 wildfires annually. The Department also performs the functions of a local fire department through reimbursement agreements with local governments. The state contracts with local entities in six areas to provide fire protection and prevention services.

The Governor's total budget includes \$1.36 billion (\$777 million General Fund) and 6,962.5 positions for the Department. Increases in the CAL FIRE's General Fund allocation are largely due to the adjustment in State Responsibility Area (SRA) protection (discussed below) and baseline changes related to salary and wages. The Budget also includes a \$50 million increase in funding for fire prevention and urban forest activities related to reducing GHG emissions (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$859,176	\$715,044	\$777,627	\$62,583	9%
Greenhouse Gas Reduction Fund	0	0	50,000	50,000	
State Responsibility Area Fire Prevention Fee	42,322	64,873	68,980	4,107	6
Timber Regulation and Forest Restoration Fund	5,908	13,393	14,227	834	6
Other	130,387	434,712	318,609	(116,103)	(27)
Total Expenditure	\$1,031,885	\$1,214,629	\$1,165,216	(\$49,413)	(4%)
Positions	5,829.70	6,885.70	6,962.50	76.8	1

Major Provisions

Cap-and-Trade - Fire Prevention and Urban Forests. The Governor's Budget proposes \$50 million, Greenhouse Gas Reduction Fund (GGRF), to support urban forests in disadvantaged communities and forest health restoration and reforestation projects that reduce wildfire risk and increase carbon sequestration. This proposal seeks to enhance forest health and reduce fuel loads in light of climate change impacting wildfire intensity and damage across the landscape (discussed on page 131).

SRA Protection Adjustment. The Governor's Budget requests \$14.2 million and 62.5 positions \$13.5 million General Fund, \$670,000 SRA Fund) to implement State Responsibility Area (SRA) protection adjustments in the Lake Tahoe Basin, San Bernardino County, and Riverside County. This adjustment is necessary due to changes in the long-term, cooperative agreement with the Federal Government for the provision of fire protection and fire prevention on these lands. The changes to the agreement were necessitated by the federal mission and staffing models that do not align with the states mission for fire prevention and suppression activities in these areas.

Other Key Provisions

- **Fireworks Disposal/Management.** The Governor's Budget requests an ongoing increase of \$1.7 million in spending authority for the Fireworks Enforcement and Disposal Fund or the Office of the State Fire Marshal Fireworks Disposal Program, to resolve the ongoing problem of illegal and dangerous fireworks stockpiled throughout the State. The ongoing fireworks program would be funded through an assessment collected by the wholesalers of safe-and-sane fireworks at the retail point of sale.
- **Public Records Act Request Compliance.** The Governor's Budget requests \$416,000 in permanent funding and two positions (SRA Fund) for additional finance and legal staff to coordinate and respond to a significant increase in the number of Public Records Act requests.
- **Fire Safety, Fire Retardants, and Building Insulation.** The Governor's Budget requests \$253,000 (Building Standards Administration Special Revolving Fund) in one-time funding to implement AB 127 (Skinner), Chapter 579, Statutes of 2013, related to flammability standards for building insulation materials, including whether the standards for some materials require the use of chemical retardants.
- **Capital Outlay: Badger Forest Fire Station - Replace Facility.** The Governor's Budget requests a supplemental appropriation of \$1.18 million (Public Buildings Construction Fund) to replace the one-engine Badger Forest Fire Station.
- **Capital Outlay: South Operations Area Headquarters-Relocate Facility.** The Governor's Budget proposes \$4.05 million (Public Buildings Construction Fund) to relocate the South Operations Headquarters to the March Air Reserve Base.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation (DPR) operates the state park system to preserve and protect the state's most valued natural, cultural, and historical resources. The park system includes 280 parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites. It consists of approximately 1.56 million acres, including over 315 miles of coastline, 974 miles of lake, reservoir and river frontage, approximately 15,000 campsites and alternative camping facilities, and 4,249 miles of non-motorized trails.

The Budget includes \$554.3 million (\$115.9 million General Fund) and 3,949.6 positions for the Department. The continued reductions in bond expenditures are due to the near depletion of available bond funds. Increases in the State Parks and Recreation Fund are due to the one-time increase of \$14 million to continue existing levels of park service (discussed below). Also, the \$40 million in one-time funds to parks for deferred maintenance (discussed below) is reflected in a control section of the Budget, not in State Parks' General Fund allocation.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$110,295	\$117,623	\$115,938	(\$1,685)	(1%)
Off-Highway Vehicle Trust Fund	72,436	88,381	84,357	(4,024)	(5)
Harbors and Watercraft Revolving Fund	1,683	51,661	53,637	1,976	4
State Parks & Recreation Fund	117,140	141,492	169,746	28,254	20
State Park Contingent Fund	4,688	10,000	10,000	0	0
State Parks Revenue Incentive Subaccount	11,835	11,000	4,340	(6,660)	(61)
Bond Funds	162,649	128,050	10,270	(117,780)	(92)
Other	59,235	116,704	106,021	(10,683)	(9)
Total Expenditure	\$539,961	\$664,911	\$554,309	(\$110,602)	(17%)
Positions	3,514.70	3,930.00	3,949.60	19.60	0

Major Provisions

Deferred Maintenance. The Governor's proposal to allocate \$40 million in one-time funds (General Fund) to State Parks for deferred maintenance is consistent with the Assembly Blueprint's Job Investment proposal on infrastructure investments.

State Parks and Recreation Fund Increase. The Governor's Budget requests a one-time increase of \$14 million State Parks and Recreation Fund (SPRF) to continue existing service levels throughout the state park system. The 2011 Budget Act included a permanent \$22 million General Fund reduction to state parks. Initially, this budget reduction was anticipated to result in the closure of 70 state parks. However, excess funds were identified in the State Parks and Recreation Fund, and legislation was enacted to utilize these funds to keep parks open. The one-time funds provided in the legislation will expire at the end of 2013-14, and this proposal will provide one-time funding to avoid park closures in 2014-15. The Parks Forward Commission is currently completing a comprehensive assessment of the state park system, and will be releasing recommendations in 2014 intended to ensure the system's long-term viability.

This one-time funding will maintain existing service levels at state parks while providing adequate time to fully evaluate the recommendations of the Parks Forward Commission.

Other Key Provisions

- **Empire Mine State Historic Park – Park-wide Remediation.** The Governor's Budget requests \$4.95 million (General Fund) for continued evaluation, analysis, and implementation of remedial actions at Empire Mine State Historic Park critical to protect both public health and safety, as well as protection of natural and cultural resources at the park.
- **Proposition 84 Support Programs.** The Governor's Budget requests various reversions of appropriation authority and new appropriations from Proposition 84 to provide continued project funding for bond supported programs as part of the Department's Proposition 84 Multi-Year Plan.
- **Onyx Properties Enforcement and Conservation.** The Governor's Budget proposes \$1.49 million and eight permanent positions and 6.6 seasonal positions and \$1.29 million ongoing funding from the Off-Highway Vehicle Trust Fund (OHVTF) to provide law enforcement, resource protection, conservation and maintenance services for a new 28,000 acre State Vehicle Recreation Area (SVRA).
- **Hollister Hills SVRA Trails Project.** The Governor's Budget requests \$879,000 and \$679,000 in ongoing funding from the OHVTF to support three permanent and five seasonal positions and to implement an annual maintenance and reconstruction program for 200+ miles of trails at Hollister Hills SVRA.

- **Capital Outlay at State Parks.** The Governor's Budget requests approval of the following capital outlay projects for state parks:

State Park System Development Program
(Dollars in Thousands)

State Park	Project Description	Budget Year Amount
Fort Ord Dunes	New Campground and Beach Access	\$19,176
Old Town San Diego Historic Park	Building Demolition and Immediate Public Use Facilities	7,643
San Elijo State Beach	Replace Main Lifeguard Tower	5,014
El Capitan State Beach	Construct New Lifeguard Operations Facility	723
South Yuba River	Historic Bridgeport Covered Bridge Stabilization	318
MaKerricher	Replace Water Treatment System	541
Angel Island	Restore East Garrison Mooring Field	31
Bidwell-Sac River	Irvine Finch Ramp Repair and Extension	78
McArthur-Burney Falls	Ramp and Boarding Float Replacement	45
Total Development Program		\$33,569

- **Capital Outlay at State Vehicle Recreation Areas (SVRAs).** The Governor's Budget requests approval of the following capital outlay projects for SVRAs:

Off-Highway Motor Vehicle Recreation Program
(Dollars in Thousands)

State Vehicle Recreation Area	Project Description	Budget Year Amount
Carnegie	Vehicle Wash Station	\$1,368
Hungry Valley	Vehicle Wash Station	1,064
Oceano Dunes	Visitor Center and Equipment Storage	6,104
Prairie City	Barton Ranch Acquisition	3,500
Oceano Dunes	Le Grande Tract Acquisition	5,000
Oceano Dunes	Pismo SB Sediment Track-Out	80
Total Development Program		\$17,116

- **Statewide Minor Capital Outlay.** The Governor's Budget requests \$2.78 million for the statewide Minor Capital Outlay Program (\$2 million) and Off Highway Vehicle (OHV) minor capital outlay projects (\$765,000).
- **Concessions Program.** The Governor's Budget requests approval to solicit various proposals for new concessions, operating agreements, and extend existing contracts.
- **Local Assistance Program — Various Grant Funding.** The Governor's Budget proposes funds in the amount of \$56.5 million from special and federal funds for the Local Assistance Program to provide grants to various agencies.
- **Local Assistance Program — 1988 Bond Settlement.** The Governor's Budget requests an appropriation of approximately \$2.1 million from the 1988 Bond Act to the County of San Diego for the purpose of acquiring natural lands in the Tijuana River Valley.

DEPARTMENT OF FISH AND WILDLIFE

The mission of the Department of Fish and Wildlife (DFW) is to manage California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. This includes habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities. The Department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific, and educational uses.

The Budget includes \$403.3 million (\$63.6 million General Fund) and 2,616.2 positions for the Department. The Budget includes \$30 million for wetland restoration activities that support GHG emission reductions (discussed above and listed below). Reductions in bond expenditures are due to the near depletion of available bond funds. Increases in the Oil Spill Prevention Administration Fund are due to the expansion of the oil pollution program to enhance inland oil spill prevention activities (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$61,058	\$63,546	\$63,617	\$71	0%
Greenhouse Gas Reduction Fund	0	0	30,000	30,000	
Federal Funds	58,837	62,523	62,228	(295)	(0)
Fish and Game Preservation Fund	92,309	115,844	113,252	(2,592)	(2)
Bond Funds	26,335	76,992	16,135	(60,857)	(79)
Oil Spill Prevention and Administration Fund	26,069	29,903	36,719	6,816	23
Other	70,404	107,138	111,396	4,258	4
Total Expenditure	\$335,012	\$455,946	\$403,347	(\$52,599)	(12%)
Positions	2,361.50	2,541.20	2,616.20	75	3

Major Provisions

GHG Emissions Reductions through Wetland Restoration. The Governor's Budget proposes \$30 million (Greenhouse Gas Reduction Fund) and 17 positions, increasing to 27 positions in 2015-16, to support activities promoting GHG emission reductions in the natural resources sector (discussed on page 131).

Statewide Oil Pollution Program (Marine and Inland). The Governor's Budget's Budget proposes \$6.7 million (Oil Spill Prevention and Administration Fund) and 38 positions to enhance the Department's inland oil spill prevention, preparedness, and response capabilities (discussed on page 135).

Marijuana Related Enforcement. The Governor's Budget requests \$1.5 million from various special funds and seven positions to investigate and enforce violations of illegal streambed alterations and the Endangered Species Act associated with marijuana production. Currently, marijuana cultivation is threatening water supply, water quality, and the sensitive habitat of endangered species. This proposal will be a coordinated effort with the Water Board.

Other Key Provisions

- **Fisheries Restoration Grant Program Database Maintenance Staff.** The Governor's Budget requests two positions (Federal Trust Fund) to operate and maintain the Fisheries Restoration Grant Program Database.
- **Land Management Agreement Review and Tracking.** The Governor's Budget proposes \$34,000 (Wildlife Restoration Fund and Federal Trust Fund) and one position to develop and implement a comprehensive process to review and track leases for management of department lands.
- **Interagency Ecological Program Management Support.** The Governor's Budget request two positions (Reimbursements and Federal Trust Fund) to address the increased demands for reporting and tracking of obligations and objectives associated with biological opinions and water rights decisions.
- **Salton Sea Restoration Program.** The Governor's Budget proposes \$400,000 and \$500,000 ongoing (Salton Sea Restoration Fund) for the operation and maintenance of the Species Conservation Habitat ponds, research and pilot studies, and adaptive management.
- **Santa Rosa Plateau Ecological Reserve Manager.** The Governor's Budget requests one position (Reimbursements) to assess resource impacts from activities on the reserve.
- **Minor Capital Outlay.** The Governor's Budget proposes the following minor capital outlay projects: \$210,000 (Hatchery and Inland Fisheries Fund) for power lines and utilities upgrade at Darrah Springs and \$405,000 for overhead electrical system replacement and upgrade at Fish Springs Hatchery.

DEPARTMENT OF CONSERVATION

The Department of Conservation administers programs to preserve agricultural and open space lands, promote beverage container recycling, evaluate geology and seismology, and regulate mineral, oil, and gas development activities. The Budget includes \$93.5 million (\$2.9 million General Fund) and 540.9 positions for support of the Department. Increases in the Oil, Gas, and Geothermal Administrative Fund are due to the implementation of SB 4 (Pavley), related to fracking (discussed below). Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$3,625	\$2,983	\$2,985	\$2	0%
Oil, Gas, and Geothermal Administrative Fund	32,264	35,882	46,784	10,902	30
Bond Funds	2,957	3,783	1,297	(2,486)	(66)
Other	47,427	82,138	42,447	(39,691)	(48)
Total Expenditure	\$86,273	\$124,786	\$93,513	(\$31,273)	(25%)
Positions	409.4	475.9	540.9	65	14

Major Provision

Implementation of SB 4 (Pavley) — Hydraulic Fracturing. The Governor's Budget proposes 60 positions, five limited term positions, and a baseline appropriation of \$13 million (Oil, Gas, and Geothermal Administrative Fund) to implement a program to regulate well stimulation, including hydraulic fracturing, as mandated by SB 4 (Pavley), Chapter 313, Statutes of 2013.

Other Key Provisions

- **California Farmland Conservancy Program Reimbursements.** The Governor's Budget requests a four-year limited term appropriation increase in Reimbursement Authority (\$5 million 2014-15 through 2016-17 and \$2.2 million in 2017-18) to assist the High Speed Rail Authority by providing services to meet the Authority's environmental commitments associated with agricultural land conversion.
- **Alquist-Priolo Fault Zoning Funding.** The Governor's Budget requests a baseline appropriation of \$1.4 million (Strong-Motion Instrumentation and Seismic Hazards Mapping Fund) to reinvigorate the Alquist-Priolo Earthquake Fault Zoning Act. In order to support this new appropriation, statutorily-set building fees must be raised or a different funding source will need to be identified.

ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (Energy Commission or CEC) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include: permitting energy facilities, designating transmission line corridors, assessing current and future energy demands and resources, developing energy efficiency standards, stimulating development of alternative sources of energy, analyzing transportation fuel supplies, prices, and trends and maintaining capacity to respond to energy emergencies.

The Budget includes \$485.7 million and 692.1 positions for support of the Commission. The increase in Alternative and Renewable Fuel and Vehicle Technology Fund for 2013/14 was due to a carryover from 2012/13 in the amount of \$51,791,000. The decrease in the Budget Year is the reduction of this \$51 million carryover. The reduction in Federal Funds reflects the spending down of stimulus money. The reduction in Renewable Resource Trust Fund relates to the PGC ramp-down (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Federal Funds	7,180	16,688	10,972	(5,716)	(34)
Renewable Resource Trust Fund	30,645	59,468	55,435	(4,033)	(7)
Energy Resources Programs Account	61,172	73,998	79,159	5,161	7
Alternative and Renewable Fuel and Vehicle Technology Fund	118,169	157,968	106,214	(51,754)	(33)
Other	77,711	306,994	233,922	(73,072)	(24)
Total Expenditure	\$294,877	\$615,116	\$485,702	(\$129,414)	(21%)
Positions	560.7	670.1	692.1	22	3

Major Provisions

Proposition 39 - Implementation of the CA Clean Energy Jobs Act. The Governor's Budget requests 12 positions and \$1.3 million in technical support (Energy Resources Programs Account) for a total request of \$3 million to implement and operate Proposition 39 and its enabling legislation, SB 73 (Committee of Budget and Fiscal Review), Chapter 29, Statutes of 2013.

Implementation of the Electric Program Investment Charge. The Governor's Budget proposes 26 positions to administer \$172.5 million in program funds for the implementation of the Electric Program Investment Charge (EPIC). The total request of \$17 million is comprised of \$3.8 million for state operations and \$13.2 million for local assistance. EPIC funds are off-budget, rate-payer dollars.

Other Key Provisions

- **Renewables Portfolio Standard Database Modernization Project.** The Governor's Budget requests \$2.16 million in one-time funding (Petroleum Violations Escrow Account) to hire a contractor to implement a new Renewable Portfolio Standard database to accommodate the expanded data requirements resulting from SBX1 2 (Simitian), Chapter 1, Statutes of 2011.
- **Building an Energy Data Infrastructure to meet 21st Century.** The Governor's Budget proposes six two-year limited term positions and \$790,000 (Energy Resources Programs Account) to develop disaggregated energy demand forecasts purportedly needed to implement the Governor's renewable distributed generation goals and support statewide energy decisions at the Energy Commission, the CPUC, and the California Independent System Operator.
- **Provide Adequate Application Development and Maintenance Support.** The Governor's Budget requests three positions and \$403,000 (Energy Resources Programs Account) to support the increasing workload for software applications and databases.
- **Acceptance Test Technician Certification Provider (ATTCP) Program.** The Governor's Budget proposes one position and one two-year limited term position (Energy Resources Programs Account) for the development, implementation, and oversight of the ATTCP program.
- **Transportation Energy Supply Forecast Analysis.** The Governor's Budget requests to redirect existing Energy Resources Programs Account (ERPA) baseline contract funds to establish two positions to improve ongoing transportation energy analysis and \$750,000 in one-time contract funds to initiate a transportation supply and economic impact analysis framework.
- **Further Develop In-House Training Capabilities.** The Governor's Budget proposes one position (Energy Resources Programs Account) to expand the in-house Training Unit.
- **Continued Responsibility for Ongoing Development. of Utility Smart Grid.** The Governor's Budget requests \$150,000 and one position to support ongoing technical analysis and standards coordination needed to ensure that SB 17 (Padilla), Chapter 327, Statutes of 2009, goals of modernizing the electricity grid and developing a "smart grid" are met.
- **Climate Change Impacts to Fueling Infrastructure for the Transportation Sector.** The Governor's Budget proposes one two-year limited term position and \$1.8 million (Petroleum Violation Escrow Account) funding to support an evaluation of the vulnerability of the fuel infrastructure for the transportation sector (e.g., refineries, pipelines, marine terminals, underground storage tanks, and fueling stations) to climate change impacts.
- **Geothermal Grant and Loan (GRDA) Program Liquidation Period Extension.** The Governor's Budget requests to extend the GRDA Program's funding liquidation period from two years to four years, which will allow more time for projects to successfully complete project tasks and generate project products.

- **PGC Ramp-Down Plan.** The Governor's Budget proposes the reduction of 31 positions and \$4 million through the Public Goods Charge for the Public Interest Energy Research Program. This plan is in response to the sunset of the authority to collect the Public Goods Charge on January 1, 2012.

STATE LANDS COMMISSION

The State Lands Commission manages and protects California's sovereign public trust lands and other lands. These lands total more than 4.5 million acres, plus 790,000 acres of reserved mineral interests. The Budget includes \$32.5 million (\$10 million General Fund) and 231 positions for the Commission.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$9,460	\$10,537	\$10,565	\$28	0%
Oil Spill Prevention and Administration Fund	11,166	12,233	12,004	(229)	(2)
Other	11,700	10,001	9,968	(33)	(0)
Total Expenditure	\$32,326	\$32,771	\$32,537	(\$234)	(1%)
Positions	211.5	229	231	2	1

Other Key Provisions

- **Human Resources Staffing.** The Governor's Budget requests two positions in the Commission's Human Resources office to address workload issues identified through a State Personnel Board audit. If approved, the Commission will pay for these positions through redirection of funds.
- **Removal of Dennett Dam, A River Hazard.** The Governor's Budget proposes \$133,000 (Environmental License Plate Fund) towards Phase II activities of the removal of Dennett Dam, an old, dilapidated dam located on the Tuolumne River that poses a threat to public safety and on-going legal liability.

DELTA STEWARSHIP COUNCIL

Established in 2009 by the Delta Reform Act, the mission of the Delta Stewardship Council, through a seven-member board, is to further the state's coequal goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Sacramento-San Joaquin Delta ecosystem. The coequal goals are to be achieved in a manner that protects and enhances the unique cultural, recreational, natural resource, and agricultural values of the Delta.

In 2013, the Council adopted a legally enforceable Delta Plan to further the coequal goals and guide state and local agency activities related to the Delta. Under state law agencies are required to coordinate their actions pursuant to the Delta Plan with the Council and the other relevant agencies. The Council is informed by scientific input from the Delta Science Program and the Delta Independent Science Board. The mission of the Delta Science Program is to provide the best possible unbiased scientific information to inform water and environmental decision-making in the Delta.

The Delta Stewardship Council is the successor to the California Bay-Delta Authority and CALFED Bay-Delta Program. The Budget includes \$17 million (\$9.7 million General Fund) and 67.5 positions for support of the Council.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$5,464	\$6,535	\$9,728	\$3,193	49%
Reimbursements	5,728	7,000	4,600	(2,400)	(34)
Other	2,419	5,938	2,765	(3,173)	(53)
Total Expenditure	\$13,611	\$19,473	\$17,093	(\$2,380)	(12%)
Positions	47.6	55.5	67.5	12	22

Major Provision

- **Implementation of the Delta Plan.** With the adoption of the Delta Plan, the Governor's Budget requests \$5.8 million (General Fund, bond funds) and 18 positions to implement the Plan.

COASTAL COMMISSION

The California Coastal Commission, comprised of 12 voting members appointed equally by the Governor, the Senate Rules Committee, and the Speaker of the Assembly, was created by voter initiative in 1972 and was made permanent by the California Coastal Act of 1976 (Coastal Act). The Coastal Act calls for the protection and enhancement of public access and recreation, marine resources, environmentally sensitive habitat areas, marine water quality, agriculture, and scenic resources, and makes provisions for coastal-dependent industrial and energy development.

Existing law requires new development in the coastal zone to obtain a coastal permit either from local government or the Commission. Local governments are required to prepare a local coastal program (LCP) for the coastal zone portion of their jurisdiction. After an LCP has been reviewed and approved by the Commission as being consistent with the Coastal Act, the Commission's regulatory authority over most types of new development is delegated to the local government. The Budget includes \$19 million (\$12 million General Fund) and 142 positions for support of the Commission. The decrease in General Fund is due to the discontinuation of the \$3 million, one-time funding increase for local coastal plan updates granted in the 2013-14 State Budget.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$10,308	\$15,063	\$12,073	(\$2,990)	(20%)
Other	7,561	7,197	7,109	(88)	(1)
Total Expenditure	17,869	22,260	19,182	(3,078)	(14%)
Positions	133.7	167	142	(25)	(15)

Key Provision

- **Coastal and Marine Education Whale Tail License Plate Program.** The Governor's Budget requests a one-time augmentation of \$295,000 (California Beach and Coastal Enhancement Account and Whale Tail License Plate Account) to increase the funding level for grants for coastal and marine education.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (CPUC) regulates critical and essential services such as privately owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The CPUC is the only agency in the state charged with protecting private utility consumers. As such, the CPUC is responsible for ensuring that customers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy, which depends on the infrastructure the utilities and the CPUC provide. The Governor's Budget proposes \$1.332 billion (Special Funds) almost entirely financed by utility ratepayers and 1,063 positions for support of the Commission.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Universal Lifeline Telephone Service Trust Administrative Committee Fund	152,146	220,991	202,594	(18,397)	(8)
Gas Consumption Surcharge Fund	761,334	584,549	585,736	1,187	0
Public Utilities Commission Utilities Reimbursement Account	87,492	88,688	94,087	5,399	6
California Teleconnect Fund Administrative Committee Fund	77,178	92,408	107,550	15,142	16
Other	181,452	295,944	342,168	46,224	16
Total Expenditure	\$1,259,602	\$1,282,580	\$1,332,135	\$49,555	4%
Positions	984.4	1,045.90	1,063.90	18	2

Major Provisions

High Speed Rail Initiative. The Governor's Budget proposes \$1.85 million and three positions (Public Transportation Account, State Transportation Fund and Reimbursements) to perform the required electrical system planning and permitting analyses to support the deployment of the HSR Initiative.

Rate Design Implementation. The Governor's Budget proposes 11 positions and \$130,000 consultants costs, totaling \$1.46 million (Public Utilities Commission Utilities Reimbursement Account) to comply with AB 327 (Perea), Chapter 611, Statutes of 2013, which proposed changes to CPUC rate design, grid distribution, net energy metering, and renewable portfolio standard programs.

Implement Greenhouse Gas Revenue to Energy Intensive, Trade-Exposed Industries. The Governor's Budget requests an increase in \$1 million reimbursable authority for FY 2014/15 and \$500,000 in reimbursable authority per year for FY 2015/16 through 2021/22 to enable the CPUC to implement the return of GHG revenue to emission-intensive, trade-exposed industries. The reimbursable authority will purportedly assure that the CPUC can ensure that sensitive, confidential business information is not compromised; and complete a study to determine which

industries are at risk of leaving the state due to the indirect emissions costs imposed by the Cap-and-Trade program.

California Advanced Services Fund Program Expansion. The Governor's Budget requests \$38.9 million (up to \$25 million in grants and loans) and 1.5 positions, California Advanced Services Fund (CASF) per AB 1299 (Bradford), Chapter 507, Statutes of 2013, to provide broadband services to areas currently without broadband access and to build out facilities in underserved areas.

Other Key Provisions

- **Extension of Liquidation Period for Outside Legal Counsel for Energy Crisis Litigation.** The Governor's Budget requests a one-year extension of the liquidation period for continued assistance by outside legal counsel and economic consultants, as well as expert witnesses in litigation by the CPUC before the Federal Energy Regulatory Commission, which seeks refunds of several billion dollars for overcharges during the 2000-01 energy crisis for California consumers.
- **Augment Fiscal Office Accounts Receivable Staff to Replace Interagency Contract to Process User Fees.** The Governor's Budget proposes \$120,000 and two positions (various Special Funds) to provide services related to the timely input of user fees and the assurance of sufficient cash flow within the PUC Utilities Reimbursement Account.
- **Variable Air Volume Controller Repair Renovations.** The Governor's Budget requests a one-time budget augmentation of \$2.8 million (Public Utilities Commission Utilities Reimbursement Account) to complete the repair/replacement of the HVAC control system at the CPUC headquarters in San Francisco.
- **Community Choice Aggregation Ongoing Implementation.** The Governor's Budget proposes \$363,000 and three positions (Public Utilities Commission Utilities Reimbursement Account) to implement SB 790 (Leno), Chapter 599, Statutes of 2011, which requires the CPUC to develop a number of new provisions to facilitate the formation and operation of Community Choice Aggregation programs.
- **Extending Staffing Support for Deaf and Disabled Telecommunications.** The Governor's Budget proposes extending five, one-year limited term positions and \$455,000 (Deaf and Disabled Telecommunications Fund) to expand the Deaf and Disabled Telecommunications Program to include speech generating devices.
- **Ongoing Staff for Broadband Mapping.** The Governor's Budget requests \$411,000 and three positions (Public Utilities Commission Utilities Reimbursement Account, California Advanced Services Fund) for continued support of legislatively mandated activities related to broadband mapping.

DEPARTMENT OF FOOD AND AGRICULTURE

The California Department of Food and Agriculture (CDFA) protect and promote California's agricultural industry and ensure that only safe and quality food reaches the consumer. The Budget includes \$372.56 million (\$63 million General Fund) and 1,615 positions for the department. As mentioned previously, the Budget includes \$20 million for agricultural activities that reduce GHG emissions.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$60,269	\$63,784	\$63,147	(\$637)	(1%)
Federal Funds	89,404	109,178	109,131	(47)	(0)
Department of Agriculture Account, Department of Food and Agriculture Fund	126,456	145,711	143,045	(2,666)	(2)
Greenhouse Gas Reduction Fund	0	0	20,000		
Other	32,842	35,259	57,242	21,983	62
Total Expenditure	\$308,971	\$353,932	\$372,565	\$18,633	5%
Positions	1,469.20	1,615.70	1,615.70	0	0

Major Provision

GHG Emissions Reductions through Agriculture. The Governor's Budget requests \$20 million (GGRF) to support activities promoting GHG emission reductions in the agricultural sector (discussed on page 131).

Key Provision

California Animal Health and Food Safety Laboratory. The Governor's Budget proposes one-time funding of \$1 million (General Fund) to help offset unfunded salary and benefit increases for positions at the California Animal Health and Food Safety Laboratory System.



GENERAL GOVERNMENT

The General Government section includes departments, commissions and offices responsible for oversight of various policy areas along with issues that are statewide in nature such as lease/revenue issues, bonds, and local government issues.

Significant Policy Areas the Assembly May Wish to Consider:

- The Governor's proposal includes \$815 million to address the deferred maintenance but identifies \$64.6 billion in deferred maintenance projects. What is an appropriate amount of a one year spending level for the deferred maintenance projects identified in the Governor's proposal?
- In 2004, the State Controller proposed the 21st Century Project (TFC), a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. After numerous problems with the project, in February 2013, the project was halted. In November 2013, the State Controller's Office filed a lawsuit against the vendor in the contract. How will the Assembly address the lawsuit with the 21st Century Project, the State Controller's IT project to create a new payroll system for the State of California?
- The Governor's Budget includes enough funding to return the Employment Development Department's (EDD) service levels to where they were in 2012-13, before a \$158 million dollar loss in federal funding due to sequestration forced EDD to reduce call center hours and staffing. However, the number one complaint from Californians continues to be their inability to get through to EDD over the phone, as often the call center is the only way for people to get their problems with UI solved. The Assembly may wish to consider redirecting funds or investing additional state funds to surpass 2012-13 performance levels by increasing staff within the EDD's call center or make them work better for those in need.
- The Governor's Budget has been silent on the issue of affordable housing in the past. The Assembly may wish to consider funding options affordable housing in the budget process.

CALIFORNIA FIVE-YEAR INFRASTRUCTURE PLAN

The Governor's budget outlines a Five-Year Infrastructure plan, the first infrastructure plan since 2008. The plan aims to balance spending priorities including the state's long-term fiscal stability while focusing limited resources on core priorities and responsibilities. The majority of the plan focuses on the state's transportation system including the commitment to High Speed Rail. Other priorities are driven by outside factors, particularly the focus from the federal government and federal courts on the conditions of on our state prisons, hospitals, and state special schools.

The Governor's Budget proposes to invest \$56.7 billion in capital funding over the next five years. Of this amount \$308.5 million is proposed from General Fund, \$12.1 billion from various

special funds, \$6.1 billion from bond funds, \$32.3 billion from federal funds, and \$5.9 billion from other funds.

Proposed Spending Under Infrastructure Plan (Dollars in millions)		
Program Area	Capital Funding	2014-15 Deferred Maintenance
Judicial Branch	\$1,295	\$15
High Speed Rail/Transportation	53,418	337
Natural Resources	1,093	43
Health and Human Resources	151	20
Corrections and Rehabilitation	377	20
Education	231	368
General Government	176	12
Total	\$56,741	\$815

Proposed Spending for FY 2014-15

In 2014-15 the budget includes \$815 million in one-time investments for deferred maintenance and \$7.2 billion for capital outlay projects. The \$7.2 billion is comprised of \$28 million in General Fund, \$1.8 billion from special funds, \$1.2 billion from bond funds, \$2.9 billion in federal funds, and \$1.2 billion from other state funds.

Deferred Maintenance

This infrastructure plan differs from other plans in the past because it places an emphasis on the state's existing infrastructure. Traditionally, deferred maintenance has been funded as part of the department's operational budgets. The statewide deferred maintenance needs total \$64.6 billion with the largest portion attributed to the deferred maintenance for roads at \$59 billion.

In 2014-15, one time funding is proposed to be used to keep the state's assets functioning longer, thereby pushing off the need for the construction of new infrastructure longer. However, the one-time funding for the deferred maintenance is very small portion of the overall deferred maintenance costs. The proposal is silent on future funding for deferred maintenance beyond year one. The chart on the following page outlines the total identified needs for the deferred maintenance.

Identified Statewide Deferred Maintenance (Dollars in Millions)	
Department of Transportation	\$59,000
Judicial Branch	2,000
Department of Parks and Recreation	1,540
Department of Corrections and Rehabilitation	959
University of California and California State University	573
Department of Developmental Services	175
Department of General Services	105
California Military Department	86
Department of State Hospitals	69
State Special Schools	28
Department of Forestry and Fire Protection	27
Other	45
Total	\$64,607

Debt Management

The 2014 Five-Year Infrastructure plan evaluates infrastructure needs in the overall context of available funding sources, what the state can afford and how the state can grow in the most sustainable manner. Currently, the debt service general obligation and lease revenue bonds have grown by 145 percent from 2000-01 to 2013-14, from \$2.9 billion to \$7.1 billion. It is expected to grow by an additional \$2.4 billion once the authorized but unissued bonds are issued.

Due to the past budgetary challenges, the state has relied heavily on debt financing rather than pay-as-you-go spending. As a result, one out of every two dollars spent on infrastructure investments goes to pay interest costs instead of building materials. From 1974 to 1999, California voters authorized \$38.4 billion of general obligation bonds. Additionally, since 2000 voters authorized more than \$95.9 billion in additional general obligation bonds. Of this amount, \$83.6 billion in debt remains outstanding and there is \$33.9 billion of general obligation and lease-revenue bonds that have been authorized but not yet issued.

Infrastructure Plan Other Key Provisions

The Other Key Provisions of the Five-Year Infrastructure Plan are summarized below:

Judicial Branch

- \$1.3 billion to fund the final phases of the remaining 15 projects on the Judicial Council's Immediate and Critical Needs List.
- Recognizes that funding for courthouse construction is limited by available resources and proposed funding in future years may be adjusted to match long-term revenues
- Includes \$15 million from the State Court Facilities Construction Fund to support trial court facility deferred maintenance and modification projects.

Transportation Agency

- Allocates \$27.4 billion (Five-Year State Transportation Improvement Program (STIP) Fund estimate with local investments) for maintenance, preservation and safety, and STIP capacity investments.
- STIP investments include capital improvement to intercity passenger rail and intercity projects that benefit goods movement.
- Includes \$50 million for rail modernization and \$100 million to support sustainable communities from the budget.
- Includes early repayment of \$337 million Highway User Tax Account loan to the General Fund to be used to accelerate preservation and maintenance projects on state and highway systems and local roads.

High Speed Rail

- Assumes \$25.6 billion will be available from various funds (federal funds, Cap and Trade funds, Prop 1A bonds, and other sources) to help accomplish the Authority's goals over the next five years.

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)

The Financial Information System for California (FI\$Cal) Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI\$Cal will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, will reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent. After a lengthy multi-stage procurement process, a vendor was selected in 2012 to begin designing and implementing the project. FI\$Cal will begin implementing the system in 5 waves, over 5 years, at a total estimated project cost of \$616.8 million.

The Governor's Budget proposes \$106.5 million for FI\$Cal, an increase of \$21.4 million or 25.2 percent from the previous year's amount, reflecting the ramped up implementation of the project. The proposed staffing of 201 positions reflects the ramp up of the project, which has an existing 192.3 positions this year. As expected, the Governor's budget reflects a large increase in the General Fund cost for the project. The funding plan articulated in SPR 4 in 2012, which was adopted by the Legislature, front-end loaded the special fund support for the project to reduce the immediate General Fund costs. FI\$Cal's costs are distributed to approximately 100 different funding sources, including \$91 million of General Fund proposed for the budget year.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	\$-	\$3,394	\$94,435	\$91,041	2,682.4%
Other Special Funds	79,547	78,838	8,896	(69,942)	(88.7)
Central Service Cost Recovery Fund	2,433	2,869	3,186	317	11.0
Total Expenditure	\$81,980	\$85,101	\$106,517	\$21,416	25.2%
Positions	106.6	192.3	201	8.7	4.5

Major Provision

Is FI\$Cal the most important item in the 2013-14 Budget?

FI\$Cal has the potential to change the way the State manages, budgets, and spends funds and may allow a dramatic expansion in the ability of the Legislature to oversee state operations. The State's current accounting system, CalSTAR, is over thirty years old and lacks basic functionality of modern accounting systems, resulting in much of the financial data being managed in constellation of ad hoc systems in departments across the state. This means that all of the State's key financial data is not in one place, requiring multiple data requests to get the type of detailed financial data needed to find discrepancies like the hidden parks special funds.

This stands in sharp contrast to the level of data that is available publically in other states. Some states, like Connecticut, Michigan, and Texas have all state expenditures on searchable websites. This explains why a March 2012 report by U.S. Public Interest Research Group (PIRG) entitled "Following the Money 2012: How the 50 States Rate in Providing Online Access to Government Spending Data" gave California a D- grade for transparency of state expenditures. FI\$Cal offers the opportunity to have the functionality and information other States have in their financial data.

But implementing FI\$Cal will be a challenge, as over the last three decades department accounting and budget staff have built customized ad hoc systems and practices that made sense for the organizations culture of their program or department, but are not standard across the State. In order to transition to a new statewide system, the financial data will have to follow a consistent chart of accounts, the staff in every department will need to follow the same consistent fiscal processes, and the financial data will need to be converted and entered into the new system in a consistent manner. Most challenging, the existing staff will need to retrain to a new system where they have different roles, have to follow new processes, and have less control over who will view the financial data. This will require substantial organization culture change across all of the fiscal staff at the state, including the Assembly Budget Committee—which will be using new templates to build the budget. In recent history, ambitious information technology projects have run aground because not enough attention has been paid to the importance of culture change.

Fi\$Cal is the State's largest information technology project in terms of budget and scope, and has considerable project risks. In recent history, the Legislature has taken action to mitigate this risk and ensure the best chance for project success by prescribing a multi-stage procurement, requiring additional reporting, stipulating that the State Auditor's Office monitor the procurement process, and by having the active monitoring of project meetings by LAO staff. The Assembly will need to continue to monitor and support Fi\$Cal in order to ensure the project succeeds.

Administration Proposes New Project Plan.

The Administration is proposing a shift in implementation plans for the Fi\$Cal project that will lengthen the overall duration of the project. The administration has proposed budget changes to conform to Special Project Report #5 which is anticipated to be approved by the Administration in the next few weeks.

The current Fi\$Cal project plan anticipated that groups of State departments would join the new system over three 12-month waves of implementation between 2014 and 2016. The new project plan has lengthened the waves to 24-month periods and moved most of the departments into the last wave of implementation. This will extend implementation of the project by one year, until 2017. This change will increase total project costs from \$616.8 million to \$672.6 million, a 55.8 million, or 9 percent, increase in total costs.

The project comments that this change in approach is the result of feedback from outside experts who had direct experience with the recent implementation of New York State's financial system. It is expected this change will reduce the overall level of project risk and make improved implementation.

In addition, the project has decided to replace the existing DGS internal procurement system with Fi\$Cal, which will increase the cost of the project in the short run, but will reduce the need to build interfaces to this existing system, which was near the end of its useful life..

DEPARTMENT OF TECHNOLOGY

Effective July 1, 2013, the Governor's Reorganization Plan (GRP) No. 2 of 2012 created the Government Operations Agency and, as part of the plan, moves the California Technology Agency (previously budgeted within Legislative, Judicial, and Executive under Organization Code 0502) to this new Agency (Government Operations).

The Department of Technology supports state programs and departments in the delivery of state services and information to constituents and businesses through technology. The Department retains statewide authority to centralize and unify information technology projects and data center services to enhance the ability to develop, launch, manage, and monitor large informational-technology projects.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$3,953	\$4,298	\$4,378	\$80	1.9%
State Emergency Telephone Number Account	94,043	-	-	-	-
Federal Trust Fund	1,931	-	-	-	-
Reimbursements	321	2,801	2,801	\$0	0
Technology Services Revolving Fund	331,327	322,854	360,602	37,748	12
Central Service Cost Recovery Fund	2,939	3,231	3,153	(\$78)	(2)
Total Expenditure	\$434,514	\$333,184	\$370,934	\$37,750	11%
Positions	1,166.80	897.7	902.7	5.0	0

The Department of Technology's budget reflects the anticipated increase in information technology purchases and projects being requested by other State departments, as reflected in the Technology Services Revolving Fund. The Department receives reimbursements from these departments through this fund for work it performs on behalf of these other departments. While the overall funds for such projects are increasing by over 11.7 percent, the Department's overall operational staff levels are relatively flat, with only increase of 5 positions, a 0.6 percent increase.

Other Key Provisions

- IT Infrastructure Budget Proposals.** The Department of Technology has submitted six budget change proposals as part of their budget submission. These proposals reflect the projected utilization of the State IT infrastructure in the budget year and add \$36.5 million of expenditure authority for the Department based upon projected needs for client departments for data storage, mainframe CPU usage, network capacity, and servers. Most of these funds, \$35.7 million are for equipment, and the remaining \$786,000 is for information technology contracting. This budget request authorizes the Department to seek

reimbursement for these services at this level from other state departments. There are seven additional Departmental positions associated with this budget request.

- **Prior Year Adjustments.** The Department has made a routine annual adjustment to prior year budgets to reflect actual project expenditures. This adjustment impacts the Departments projected needs for the current and budget years. In the Governor's budget, lower than projected expenditures in 2012-13 translate into a reduction in project costs of \$25.7 million in 2013-14 and \$26.9 million in 2014-15.
- **Gold Camp Data Center.** The Department includes a proposal for a \$6.7 million capital improvement project to improve the cooling and backup power supplies at the Gold Camp Data Center. The Gold Camp Data Center, located in Rancho Cordova, hosts many of the State's largest computer systems, including the CALHEERS system which is the enrollment system for the California Health Benefit Exchange, and the SOMS system, which is the Corrections and Rehabilitation case management system. The Administration projects the growth in the systems hosted by the Data Center will outstrip the available power and cooling capacity of the data center.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and provides employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

The Governor's Budget proposes total spending of \$13.8 billion (\$254 million General Fund), a 9.8 percent decrease in General Fund spending compared to the current year, and 8,496.1 positions, a decrease of 3.65 percent compared to the current year.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	CY to BY Change	% Change
General Fund	\$329,797	\$281,639	\$253,982	(\$27,657)	(9.82%)
Unemployment Fund	12,011,286	9,046,922	6,103,774	(2,943,148)	(32.53)
Other Funds (8)	6,551,672	7,190,569	7,441,794	251,225	3.49
Total Expenditures	\$18,892,675	\$16,519,130	\$13,799,550	(\$2,719,580)	-(16.46%)
Positions	8879.1	8818.0	8496.1	(321.9)	-3.65

Major Provisions

Unemployment Insurance Program Insolvency. The Unemployment Insurance Program (UI) is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. Benefits range from \$40 to \$450 per week depending on the earnings during a 12-month base period. UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first \$7,000 in

wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate.

Primarily because of double-digit unemployment rates, the state's UI Fund was exhausted in January 2009 due to an imbalance between the benefit payments and annual employer contributions. To make UI benefit payments without interruption, the EDD began borrowing funds from the Federal Unemployment Account (FUA) to pay benefits to an increasing number of unemployed claimants. California is one of 32 states forced to borrow money from the federal government to handle surging unemployment during the past five years.

At the end of 2012 the UI Fund deficit was \$10.2 billion. By the end of 2013 the deficit was \$9.7 billion. It is projected by the end of 2014 that the State will owe \$8.8 billion to the UI Fund. Beginning in 2012, the amount owed to the Federal Government on the outstanding loan was reduced due to the Federal Unemployment Tax Act (FUTA) credit reduction. This occurs when the State UI Fund is in deficit for two consecutive years. The EDD continues to face a significant structural funding deficit in the UI Program. Overall service levels have significantly decreased, but the Administration hopes to bring service levels back to those of 2012-13.

The Governor's Budget includes a three-part proposal, totaling \$64 million (Federal Funds) to minimize further degradation of UI services due to underfunding from the federal Department of Labor, including: (1) \$38 million (Contingent Fund), (2) an increase in withholding penalties deposited into the Contingent Fund from 10 percent to 15 percent (resulting in an additional \$10 million which would be available to the UI Program), and (3) a one-year suspension of the transfer of personal income tax withholding penalties to the General Fund, instead keeping \$15.9 million for the program.

Effective July 1, 2014, five of the penalty rates assessed on non-compliant employers for late payments will increase from 10 percent to 15 percent. The penalty charged for failure to file a wage report within 15 days of written demand will also be increased from \$10 per wage item to \$20 per wage item. The Department has also identified efficiencies within the UI program that are expected to result in \$49.2 million in savings.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations protects the workforce in California, improves working conditions, and advances opportunities for profitable employment. The Department is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation insurance claims, and working to prevent industrial injuries and deaths. The Department also promulgates regulations and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics, that measure the condition of labor in the state.

The Governor's Budget proposes total spending of \$597.7 million (non General Fund) for the Department, a 26.93 percent increase from 2013-14, and 2789.6 positions, a 0.07 percent decrease from the current year.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,068	\$2,512	-	(\$2,512)	-
Workers' Compensation Administration Revolving Fund	161,944	192,227	308,374	116,147	60.42
Federal Trust Fund	34,065	36,778	36,980	202	0.55
Occupational Safety and Health Fund	39,165	52,636	59,149	6,513	-
Labor Enforcement and Compliance Fund	2,116	1,530	1,630	100	6.54
Other Funds (24)	123,645	142,859	149,883	7,024	4.92
Total Expenditure	\$399,394	\$470,869	\$597,696	\$126,827	26.93%
Positions	2472.1	2791.6	2789.6	3	(0.07)

Major Provisions

Process Safety Management Unit Expansion. In August 2012, a fire broke out at Chevron Richmond refinery when a severely corroded pipe in the refinery's #4 Crude Unit began leaking. Chevron managers did not shut the unit down, but, instructed workers to remove insulation which led to the pipe's rupture and a massive fire. While there were no serious worker injuries, a reported 15,000 residents of surrounding communities sought treatment after breathing emissions from the fire.

The Process Safety Management (PSM) Unit within the Division of Occupational Safety and Health (DOSH) enforces "process safety management" procedures regarding potentially hazardous processes that exist in a wide variety of industries, including oil refineries. These responsibilities, and the responsibilities of employers in these industries, are described in Labor Code Sections 7850 – 7870.

Labor Code Section 7870 states that the department "may fix and collect reasonable fees for consultation, inspection, adoption of standards, and other duties" in relation to process safety management at these hazardous sites. The department currently does not collect such a fee. Last year, Budget Subcommittee No. 4 found that the PSM needed at least 15 additional positions to have enough personnel to ensure worker and citizen safety within these industries.

Pursuant to the Legislature's recommendation the Governor's Budget includes \$2.41 million (OSH Fund, \$2.1 million ongoing) and 11.0 new positions to permanently expand the PSM within the DOSH. The expanded PSM program will consist of the 1.01 existing positions, 4.0 redirected positions (as required by the 2013 Budget Act), and 11.0 new proposed positions, bringing the Unit to a total of 26.0 positions. All PSM refinery positions (new, directed, and existing) will be funded by a new fee on the refinery industry. This newly established regulatory fee for oil refineries is based on the amount of crude oil being processed at each refinery to fund inspections and enforce workplace health and safety regulations.

The Governor's Budget also includes \$3.32 million (OSH Fund) to support 26.0 of 31.5 existing, unfunded positions in the Cal/OSHA program within the DOSH. The remaining 5.5 positions will be abolished.

Other Other Key Provisions

- **Unpaid Wage Fund Insolvency.** The Governor's Budget includes a decrease of \$3.295 million (Industrial Relations Unpaid Wage Fund) and a corresponding increase of \$3.295 million to the Labor Enforcement and Compliance Fund to shift existing labor enforcement positions to a more appropriate funding source. This will continue to support the Bureau of Field Enforcement, Labor Enforcement Task Force, and the wage claim collection functions within Division of Labor Standards Enforcement.
- **Enhanced Labor Enforcement Compliance from 2013 Legislation.** The Governor's Budget includes \$1.1 million and 5.5 positions (\$624,000 ongoing) from the Labor Enforcement and Compliance Fund to fulfill the provisions of various legislative bills: AB 10 (Alejo) Chapter 351, 2013; AB 263 (Hernández) Chapter 732, 2013; SB 390 (Wright) Chapter 718, 2013; SB 400 (Jackson) Chapter 759, 2013; SB 530 (Wright) Chapter 721, 2013; and SB 666 (Steinberg) Chapter 577, 2013.
- **Expanded Overtime Coverage for Personal Attendants.** The Governor's Budget includes \$335,000 (\$284,000 ongoing, LECF) and 2.5 positions to meet the requirements of AB 241 (Ammiano) Chapter 374, 2013.

SECRETARY OF STATE

The Secretary of State (SOS), a statewide elected official, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records of historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe At Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$196	\$27,571	\$28,570	\$999	3.62%
Business Fees Fund	32,627	41,617	53,015	11,398	27.39
Federal Trust Fund	5,266	30,954	19,912	(11,042)	(35.67)
Reimbursements	32,194	12,088	-	(12,088)	-
Other Funds (3)	2,116	1,611	2,206	595	36.93
Total Expenditure	\$147,594	\$91,124	\$106,346	\$15,222	16.70%
Positions	465	559	562	3	0.54

The Governor's Budget proposes total spending of \$106.35 million (\$28.57 million General Fund) for the Secretary of State in 2014-15, a total increase of 16.7 percent from current year, and 562 positions, an increase of .54 percent from the current year.

Major Provisions

California Business Connect. The SOS is constitutionally mandated to provide a significant number of services, which are critical for all businesses operating in California, along with the overall economic expansion of the State. The SOS is responsible for filing important commerce and trade documents including business formations, changes, and terminations. Most business entity documents and information requests are submitted to this office via mail or in-person in Sacramento and Los Angeles. This office currently relies on several antiquated electronic and paper database systems (including 3" by 5" index cards) in order to process over 2 million business filings and orders submitted on an annual basis.

California Business Connect is a comprehensive technology upgrade that will increase online services for business filings and copy orders, allowing the SOS to process documents within a few hours and avoid seasonal processing fluctuations. This will allow business to quickly open their doors, create bank accounts, acquire loans, hire employees, and generate income regardless of the time of year, creating a friendlier business environment in California.

The SOS has completed its review of vendor bids for a Systems Integration consultant and the Notification of Intent to Award the contract was posted on September 5, 2013. The new Systems Integration contract is expected to be awarded on or before February 5, 2014.

The Governor's Budget includes \$7.17 million (No General Fund) for FY 2014-15 to continue implementation of the California Business Connect project. Of the project costs for FY 2014-15, \$2.852 million will be funded through the use of existing resources.

Help America Vote Act Implementation and the VoteCal Registration Database The SOS entered into an agreement with the U.S. Department of Justice to develop and implement a statewide uniform, centralized, interactive, and computerized voter registration database to comply with federal mandates of the Help America Vote Act (HAVA). Passed in 2002, in response to controversy surrounding the presidential election of 2000, HAVA requires that states comply with a series of federal election requirements that are intended to ensure a more fair and accurate federal election process. Such requirements include: replacing punch-card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration database.

In order to comply with HAVA, SOS is implementing a solution that will provide a new HAVA compliant central state voter registration database and system (VoteCal system), while remediating existing county Election Management Systems. This will allow county users to use their existing data entry screen processes while ensuring that voter registration information is maintained by the VoteCal system in the single, statewide voter registration database.

The Governor's Budget proposes \$19.9 million (Federal Trust Fund) for FY 2014-15 to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Other Key Provisions

- **Transfer of State Records Management Program to Secretary of State.** The Governor's Budget includes 1 position and \$432,000 (General Fund) to transfer the California Records and Information Management program and its three Records Analyst positions from the Department of General Services to the Secretary of state.
- **Actively Seeking Elderly/Dependent Adult Applicants for "Safe at Home".** The Governor's Budget includes \$68,000 (General Fund) for one, permanent full-time Management Services Technician to assist with the workload associated with the implementation of AB 849 (Garcia) Chapter 676, 2013. This bill allows the elderly and or dependent adult victims of domestic violence, sexual assault or stalking, to apply to the Secretary of State's California Address Confidentiality Program, or "Safe at Home".
- **Facility Operations Increase.** The Governor's Budget proposes \$2.15 million (\$1.85 million ongoing) to compensate for a calculation error resulting in insufficient rent authority for the Secretary of State.

DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with more than \$119 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code, and that insurance companies are financially able to meet their obligations to policyholders and claimants. The department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combatting insurance fraud.

The Governor's Budget proposes a total spending of \$245.1 million (Non General Fund) for the Department of Insurance in 2014-15, an increase of 0.50 percent compared with estimated spending for the current year. Proposed staffing totals 1,349.3, an increase of 1.6 percent compared to the current year.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	CY to BY Change	% Change
Insurance Fund	220,108	240,737	241,717	980	0.41
Federal Trust Fund	710	2,857	3,103	246	8.61
Reimbursements	609	250	250	0	-
Total Expenditures	\$221,427	\$243,844	\$245,070	\$1,226	0.50%
Positions	1,269.40	1,327.80	1,349.30	21.50	1.62

Other Key Provisions

- **AB 922: Office of Patient Advocate.** The Governor's Budget includes \$163,000 (Insurance Fund) in Fiscal Year (FY) 2014-15 and \$150,000 in FY 2015-16 and ongoing to fund 1.5 positions to implement AB 922 (Monning), Chapter 552, Statutes of 2012.
- **ABX12: Health Care Coverage Market Reform.** The Governor's Budget includes \$1.01 million (Insurance Fund) in FY 2014-15 and \$702,000 in FY 2015-16 and ongoing to fund 7 Associate Insurance Compliance Officers and 2.0 Limited Term Attorney positions for one year to address increased workload associated with ABX12. The bill amends and adds several statutes to the California Insurance Code to conform to the federal Affordable Care Act.
- **SB 281: Accelerated Death Benefits – Life Insurance.** The Governor's Budget includes \$370,000 in FY 2014-15 and \$312,000 in FY 2015-16 ongoing for 1 Associate Insurance Compliance Officer, 1.0 Attorney, and 1.0 Special Investigator to address increased workload related to SB 281 (Calderon) Chapter 345, Statutes of 2013. The bill changed the legal standards for accelerated death benefit provisions of life insurance policies that accelerate death benefits upon the insured becoming chronically ill, where the insurer places no restrictions on the insured's use of the accelerated death benefit, and where there is no requirement that the insured is receiving long term care/disability services.
- **SB 251: Electronic Notice Transmission.** The Governor's Budget includes \$773,000 (Insurance Fund) in FY 2014-15, \$603,000 in FY 2015-16, and FY 2016-17 to fund 5.0 three-year limited-term positions, hardware, and software costs to implement SB 251 (Calderon) Chapter 369, Statutes of 2013. The bill introduces and allows for electronic transmission of various renewal notices and offers which were previously unavailable.
- **SB 161: Stop-Loss Insurance Coverage.** The Governor's Budget includes a one-time increase of \$76,000 (Insurance Fund) for Temporary Help to comply with newly-established mandates of SB 161 (Hernández) Chapter 443, Statutes of 2013, which introduces new regulations related to stop-loss insurance.
- **AB 32: Community Development Financial Institution Investments.** The Governor's Budget includes \$555,000 (Insurance Fund) in FY 2014-15 and \$522,000 in FY 2015-16 and FY 2016-17 for 5.0 three-year limited-term positions to implement AB 32 (Perez) Chapter 608, Statutes of 2013, which will take effect immediately as a tax levy. The bill is related to community development financial institution investments, and increases the annual limitation on the total amount of qualified investments eligible for the Community Development Financial Institution Tax Credit Program from \$10 million to \$50 million. This bill would increase the annual amount of Community Development Financial Institution tax credits available from \$2 million to \$10 million.

- ***Principle-Based Reserving.*** The Governor's Budget includes \$491,000 (Insurance Fund) for FY 2014-15 and \$463,000 for FY 2015-16 ongoing for 4.0 positions to address the increased workload associated with the adoption of the Principle-Based Reserving life insurance methodology by the National Association of Insurance Commissioners. Principle-Based Reserving is a new modeling methodology utilized to estimate insurer liability for future life insurance claims and adds a need to review different programming platforms in order to generate future modeled reserves (which are not formula driven).

DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 2.7 million businesses and professionals in over 250 license categories. The department is also an advocate for various consumer and business issues.

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the 2013-14 and 2014-15 budget information for the Board functions within the Structural Pest Control Board, and the 2013-14 and 2014-15 information for the Board of Chiropractic Examiners was merged with the Department of Consumer Affairs, Boards (DCA). 2012-13 budget information for the Board functions within the Structural Pest Control Board is displayed within the Environmental Protection Agency. 2012-13 budget information for the Board of Chiropractic Examiners is displayed within General Government. The Department of Consumer Affairs Regulatory Boards was previously displayed within the State and Consumer Services Agency and is now included in the Business, Consumer Services, and Housing Agency. The Budget splits the Department of Consumer Affairs into two budget categories: Department of Consumer Affairs, Boards; and Department of Consumer Affairs, Bureaus.

The Governor's Budget proposes total spending of \$309.62 million (non General Fund) for the Department of Consumer Affairs, Boards in 2014-15, an increase of 5.7 percent compared with estimated spending for the current year. Proposed staffing totals 1,533.2 personnel, a decrease of 0.3 percent compared with the current year.

The Governor's Budget proposes total spending of \$292.82 million (no General Fund) for the Department of Consumer Affairs and Bureaus, in 2014-15, a decrease of 0.7 percent compared with estimated spending for the current year. Proposed staffing totals 1,885.1 personnel, an increase of 7.23 percent compared with the current year.

Major Provisions

BreEze. BreEze is an information technology project to support all of DCA's applicant tracking, licensing, renewal, enforcement, monitoring, cashiering, and data management requirements with a single solution. According to DCA, once completed BreEze will be the largest online enterprise licensing and enforcement solution in the world. The project is planned to be rolled out in three releases, each including a number of boards and bureaus.

In December, 2013 the DCA notified the Department of Finance that the BreEZe project will need an additional \$12.6 million for application development, database support, reports development, amended contracts for testing, interfaces, project management support, independent verification and validation services, and additional hardware maintenance costs due to the extended project timeline.

The Governor's Budget includes an adjustment to the existing current year (2013-14) BreEZe project and Credit Card funding to reflect changes found between the first and second Special Project Reports (SPR). SPR2 was approved by the California Technology Agency on October 31, 2013. To continue with the implementation of BreEZe the Governor's Budget includes \$11.85 million (Non General Fund) for FY 2014-15 based on the SPR2. With the current year adjustment, \$9.71 million of this proposal is new monies (Non General Fund).

Performance-Based Budgeting. Executive Order B-13-11 directed the Department of Finance to modify the state budget process to increase efficiency and focus on accomplishing program goals. Pursuant to this Executive Order, Finance and DCA developed a multi-year plan to evaluate the performance of DCA's programs. This plan included program evaluation of enforcement and licensing functions, development of strategic plans, and reporting of enforcement and licensing data.

Program Evaluation of Enforcement and Licensing Functions. In the last year, DCA initiated a pilot evaluation of two of its programs, the Dental Board of California and the Bureau of Security and Investigative Services (BSIS). The evaluation of the Dental Board and the BSIS resulted in the implementation of several process improvement initiatives designed to reduce investigative cycle times. DCA will continue to further define, track and report on its performance measures.

Development of Strategic Plans. DCA requires all of its boards and bureaus to have up-to-date strategic plans. Since July 2012, DCA has worked with 17 of its boards and bureaus to update or develop new strategic plans, and is currently working with the other boards and bureaus to complete plans.

Reporting of Enforcement and Licensing Data. The 2013-14 Governor's Budget highlighted DCA's enforcement targets and provided enforcement performance data for 2010-11 and 2011-12. The 2014-15 Budget includes enforcement data for 2011-12 and 2012-13. The enforcement data shows the amount of time it takes from a complaint being received by a board or bureau and its resolution. DCA is currently unable to uniformly track and report licensing data for its boards and bureaus. However, DCA's licensing and enforcement information technology system, BreEze, will be utilized to uniformly track licensing data for all of DCA's boards and bureaus. BreEZe is scheduled to be fully implemented in December 2015, which will allow DCA to display all 2015-16 licensing data in the 2017-18 Governor's Budget.

In an effort to increase efficiencies within the Department of Consumer Affairs the Governor's Budget includes 22 proposals requesting increased funding and positions for enforcement and licensing division enhancements to specifically address workload increases and caseload backlogs. The table below details the requests. (Dollars are listed in thousands).

Board	Proposal Title	Requested Funding 2014-15*	Requested Positions 2014-15
Accountancy	Consumer Protection: Peer Review and Investigation Backlog	\$940	8.0
	Consumer Protection: Mandatory Retroactive Fingerprinting	\$923	5.0
	Initial Licensure - Strengthening Educational Requirements	-	1.0
Acupuncture	Workload deficiencies within Enforcement, Licensing, and Education Enforcement Oversight	\$280	3.0
Private Postsecondary Education	Enforcement Staffing Augmentation	\$1,292	11.0
Behavioral Sciences	Enforcement	\$430	4.5
	Licensing Evaluations	\$218	3.0
Contractors' State License	Subsequent Arrest and Conviction Records (Redirection)	-	4.0
Medical Board	Enforcement Enhancement	\$471	5.0
	Licensed Midwifery Program	\$13	-
Naturopathetic Medicine Committee	Enforcement/Licensing Augmentation	\$109	1.0
Pharmacy	Combating Prescription Drug Abuse - A Comprehensive Approach	1,300	8.0
	Enforcement Unit	\$185	2.0
Physical Therapy	Enforcement	\$189	2.0
	Special Fund Augmentation for Attorney General Budget	\$142	-
Registered Nursing	Enforcement Division Positions	\$2,522	28.0
Respiratory Care	Enforcement Program Workload	\$104	1.0
Veterinary Medical	Veterinary Medical Board Enforcement Program	\$384	4.0
Psychology	Licensing Unit	-	3.0
Osteopathic Medical	Licensing/Administrative Staff Augmentation	-	3.0
State Athletic Commission	Program Restructure	\$361	2.0
	Professional Boxers Pension Fund	\$32	0.5
Professional Fiduciaries Bureau	Enforcement Program Augmentation	\$80	1.0

Other Key Provisions

The Governor's Budget includes 8 proposals related to the implementation of legislation. The table below details the proposals. (Dollars are listed in thousands).

Board/Bureau	Legislation	BY Cost	Positions
Pharmacy Board	SB 493: Advanced Practice Pharmacist (Hernández, 2013)	\$390	3.0
	SB 294: Sterile Compounding (Emmerson, 2013)	\$1,264	7.0
State Athletic Commission	SB 309: Professional Trainer's License (Lieu, 2013)	\$47	0.5
Bureau of Automotive Repair	AB 118: Enhanced Fleet Modernization Program (Nunez, 2007)	\$40,372	9.0
Medical Board	SB 304: Redirection of Investigative Staff (Lieu, 2013)	\$15,500	116.0
Dental Board	SB 56: Mobile or Portable Dental Clinics (Galgiani, 2013)	\$54	0.5
Veterinary Medical Board	SB 304: Hospital Inspections and Veterinary Assistants (Lieu, 2013)	\$677	6.0
Physical Therapy Board	SB 198: Regulation Analyst (Lieu, 2013)	\$91	1.0
Bureau of Electronic & Appliance Repair, Home Furnishings and Thermal Insulation	AB 480: Service Contracts for Optical Products Augmentation (Calderon, 2013)	\$102	1.5

EMPLOYEE COMPENSATION

The budget includes some changes for employee compensation that were part of the state's collective bargaining contract agreements. Last year, 13 of the state's collective bargaining contract agreements included salary increases tied to a revenue-based "trigger." The trigger to provide the 2014-15 salary increases is based on the Director of Finance's determination at 2014-15 May Revision that there is sufficient funding. If the trigger is pulled, employees will receive a salary increase of 2 percent in 2014-15 and 2.5 percent in 2015-16. If the trigger is not pulled, they will receive a 4.5 percent salary increase in 2015-16.

- The budget assumes the conditions will be met to pull the trigger and therefore includes \$173.1 million, of which \$82.4 million is General Fund.
- Additionally, the budget extends the same general salary increases negotiated for the majority of rank and file members to unrepresented state managers and supervisors to avoid salary compaction issues. The budget includes \$98.6 million, of which \$40.3 million is General Fund for the salary increases.
- Finally, the budget includes funding to address salary parity and inequity issues involving specific state managers and supervisors, particularly related to scientists and engineers. This is consistent with action taken by the Assembly in the past.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board (PERB) administers and enforces California public sector collective bargaining laws. The goal of PERB is to promote improved public sector employee-employer relations and to provide timely and cost effective methods through which employers, employee organizations, and employees can resolve labor disputes. Funding for the PERB is through the General Fund and a minor amount through reimbursements.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$7,580	\$8,563	\$8,570	\$7	0.1%
Reimbursements	100	186	186	0	0.0
Total Expenditure	\$7,680	\$8,749	\$8,756	\$7	0.1%
Positions	45.7	55.1	57.1	2.0	3.6

Other Key Provisions

- The budget proposes redirecting \$360,000 in General Fund operating dollars to create 4.0 new positions. These positions will address increased workload due to new statutory requirements, existing workload due to a prior contract expiring, and support functions in two regional offices.

CALIFORNIA PUBLIC RETIREMENT SYSTEM

The California Public Employees Retirement System (CalPERS) administers the retirement benefits for about 1,679,000 state and local agency employees as of June 30, 2013. CalPERS also provides health benefits for about 1,376,000 active and retired state, local government, and school employees as of October 30, 2013. CalPERS is governed by a Board of Administration that has authority over the administration of the retirement system. CalPERS receives funding from non-General Fund sources for administrative costs, largely from retirement fund resources themselves. The budget shows a slight decrease in state operations for 2014-15 from \$408.1 million in the current year to \$406.3 million in the budget year. Positions remain the same at 2,999.3 positions.

Budget payments for non-add General Fund retirement contributions to CalPERS in 2014-15 will be \$1.84 billion General Fund, \$1.06 billion special funds, and \$461 million non-governmental cost funds. In addition, CalPERS payments for California State University will total \$477 million General Fund and \$0.24 million in other non-governmental cost funds. These "non-add" amounts are not reflected in the figure below. Expenditures noted below largely consist of benefit payments to retirees.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Public Employees' Retirement Fund	18,172,642	19,288,446	20,569,541	1,281,095	7
Public Employees' Health Care Fund	1,943,185	2,775,317	3,691,635	916,318	33
Other Retirement Funds	93,861	104,365	110,013	5,648	5
Reimbursements	6,395	10,165	10,165	0	0
Total Expenditure	\$20,216,083	\$22,178,302	\$24,381,354	\$2,203,052	10%
Positions	2,344.6	2,999.3	2,999.3	0.0	0.0

Major Provisions

AB 340 (Chapter 296, Statutes of 2012), established the Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA made significant changes to the public employees' retirement system including lowering pension benefits and requiring higher retirement ages for new employees in state and local government and schools hired after January 1, 2013. As of July 1, 2013, state employees in designated bargaining units and associated excluded employees began making additional payroll contributions to their pension plans, and others will make additional contributions beginning July 1, 2014.

- The budget estimates that the state will contribute an additional \$67.1 million during 2013-14, and \$108.4 million in 2013-14, toward the state's unfunded liability as a result of the additional contributions.

STATE TEACHERS' RETIREMENT SYSTEM

The California State Teachers' Retirement System (CalSTRS) administers the retirement benefits for 868,493 active and retired educators in public schools from pre-kindergarten through the community college system in California. CalSTRS is governed by the Teachers' Retirement Board, which has exclusive control over the investment and administration of the retirement fund. CalSTRS is responsible for the determination and payments of benefits to members, retirees, and their beneficiaries. CalSTRS receives funding from non-General Fund sources for administrative and operational costs, largely from retirement fund resources themselves. For 2014-15, the state operations budget is \$265.2 million, a 57 percent increase over the current year of \$168.1 million. For 2014-15, there is an increase of 4 percent in positions at 1,025 positions compared to last year at 986 positions.

General Fund contributions to the retirement fund for 2014-15 is budgeted to be \$1.423 billion. The proposed funding in 2014-15 is 4.7 percent less than the \$1.359 billion funding in 2013-14. These "non-add" General Fund payments are not reflected in the figure below.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Teachers Retirement Fund	11,748,695	12,581,435	13,521,406	939,971	7
Other Retirement Funds	42,480	44,063	45,156	1,093	2
Total Expenditure	\$11,791,175	\$12,625,498	\$13,566,562	\$941,064	7%
Positions	850.6	986.0	1,025.0	39.0	4

Major Provisions for CalSTRS

The major discussion surrounding CalSTRS is the unfunded liability for the state teachers' retirement system. CalSTRS currently is not funded enough to ensure its solvency over the long term. Additionally, current law does not define who is responsible for providing funding to the system: teachers, districts or the state.

The Governor's budget proposes to hold stakeholder meetings in 2014-15 to discuss a shared responsibility between the Legislature, school districts, teachers and the pension system to achieve a fully funded, sustainable teachers' pension system within 30 years. The budget anticipates that an approach could be reached this year, and that approach would be included in the 2015-16 budget. The Governor's proposed budget does not set aside any one-time funding for the unfunded liability.

The Legislative Analyst's Office (LAO) recommends setting aside some one-time funding during the 2014-15 budget process in anticipation of the state's adoption of a long-term CalSTRS funding plan. The LAO places an emphasis on the funding as a prepayment, and anticipates that a deal on the shared responsibility can be worked out in the future as the Governor's budget proposes.

The Assembly will have the opportunity to discuss how it would like to proceed regarding the unfunded liability through the policy and budget processes.

Other Key Provisions

The CalSTRS budget includes nine BCPs, which are outlined below:

- **Member Service Center Inland Empire.** CalSTRS request an augmentation of one time funding of \$1,389,000 in 2014-15, and \$446,000 in 2015-16, and four full-time positions to support the establishment of the Inland-Empire CalSTRS-operated Member Service Center. This Member Service Center will be similar to other full-service counseling offices in Glendale, Santa Clara, and Orange County.
- **Expansion of Sustainability Program.** CalSTRS requests a permanent augmentation of \$100,000 and one permanent full time position to expand the existing sustainability efforts by establishing a corporate sustainability program in accordance with the CalSTRS Strategic Plan. The staff position will be responsible for developing a comprehensive corporate sustainability program at CalSTRS that is in alignment with leadership.
- **Legal Administrative Support.** CalSTRS budget includes a request for permanent funding in the amount of \$57,000 and one position to support administrative functions associated with increased attorney workload from audits. In 2013-14, an Attorney and Legal Analyst were added to the Office of General Counsel, and this created the need for additional administrative support.
- **Investment Portfolio Internal Management.** CalSTRS includes a permanent funding augmentation of \$2,186,000 in 2014-15 and the establishment of 19 permanent positions to establish various positions to address an increase in internal management and of the investment portfolio. Thirteen positions would be assigned to the Investment Branch to manage a portfolio and the additional six positions would be assigned to work in the Financial Services Branch.
- **Member Service Improvement.** CalSTRS requests three permanent positions and \$205,000 to increase customer service levels in the contact center.
- **Reduce Reliance on Contractor Staff.** CalSTRS requests a permanent augmentation of nine full-time staff to reduce the reliance on external contractors. No additional funding is requested because contractor dollars will be redirected to cover staffing costs.
- **IT Infrastructure Security and ISO Workload Growth and Risk Management.** This budget proposal requests a permanent augmentation of \$544,000 and five permanent positions to ensure the proper completion of on-going preventive maintenance and security activities and coordination of annual security audits. Over the past four years, CalSTRS IT infrastructure has grown significantly in volume in technology assets but the resources to keep pace have not increased accordingly. Additional resources are needed to address the increase in workload hours and some of these activities.
- **Actuarial Resources.** CalSTRS budget includes a permanent funding augmentation of \$165,000 and one full time position to perform the new actuarial and benefit administration functions. In 2012-13 these duties were backfilled by Milliman, Inc., which is an outside consultant that performs other work for CalSTRS but not the most economical resource to address the increase workload in actuarial work moving forward.

- **Business Renew – Pension Solution.** CalSTRS includes a proposal for \$61.6 million in one-time funding in 2014-15 and an additional \$151.4 million in one-time funding in 2015-16 through 2019-20 for project resources, staff and vendor costs to support the Pension Solution Project under the CalSTRS Business Renew program. The Pension Solution Project is a multi-year technology project to replace CalSTRS pension administration system with a more modern system.

DEPARTMENT OF HUMAN RESOURCES

The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the employer in all matters concerning state employee-employer relations. CalHR is responsible for issues relating to recruitment, selection, salaries, benefits, position classifications, and provides a variety of training and consultation series to state departments and local agencies. For the budget year, CalHR's budget remains about the same as current year, with slight decreases over current year.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$7,191	\$7,854	\$7,129	(\$725)	(9.2%)
Special Funds and Reimbursements	22,288	27,626	27,584	(42)	(0.2)
Total Expenditure	\$84,436	\$94,904	\$94,671	(\$233)	(0.2%)
Positions	262	291	289	(2)	(0.7)

Other Key Provisions

- **Examination and Certification Online System (ECOS).** The Budget proposes two limited-term positions and \$630,000 to fund the ECOS project. The project was underestimated in the amount of time needed to complete the application by 22 months and last year a Spring Finance letter included a 111 percent project increase.
- **Tribal Gaming Labor Dispute Resolution.** The Governor's budget proposes an ongoing appropriation of \$75,000 from the Indian Gaming Special Distribution Fund to allow expenditures for tribal gaming labor dispute resolution in any given year.

STATE PERSONNEL BOARD

The five-member State Personnel Board (SPB) was established to ensure that the state civil service system is free from patronage and that employment decisions are based on merit. SPB's members are appointed by the Governor and it provides a variety of recruitment, selection, classification, appellate, goal setting, training, and consultation services. SPB is supported by reimbursements with additional support from General Fund and special funds. For budget year, its funding level is \$10.6 million, which remains about the same as current year, with no changes in the number of positions at 69.7.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$880	\$1,133	\$1,115	(\$18)	(1.6%)
Reimbursements	7,939	8,643	8,645	2	0.0
Central Service Cost	725	855	874	19	2.2
Recovery					
Total Expenditure	\$9,544	\$10,631	\$10,634	\$3	0.0%
Positions	55.0	69.7	69.7	0	0.0

STATE CONTROLLER

The State Controller is the Chief Fiscal Officer of California, the ninth largest economy in the world. The State Controller's Office (SCO) is a separately established constitutional office. The Controller chairs or serves on 81 state boards and commissions, and is charged with duties ranging from participating in the oversight of the administration of the nation's two largest public pension funds, to protecting the coastline and helping to build hospitals. The Controller provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds
- Determine legality and accuracy of claims against the State
- Issue warrants in payment of the State's bills
- Administer the Uniform State Payroll System
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees
- Audit state and local government programs
- Inform the public of the State's financial condition
- Administer the Unclaimed Property Law; and
- Inform the public of financial transactions of city, county and district governments.

The SCO is funded through the General Fund as well as over 300 special funds and accounts and reimbursements. The Governor's Budget calls for resource support of \$188.8 million (\$48.9 million General Fund) and 1,392.1 positions. The budget year shows a slight decrease of \$3.97 million from the current year.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$45,694	\$54,814	\$48,994	(\$5,820)	(11%)
Unclaimed Property Fund	32,781	35,801	38,406	2605	7
Central Service Cost	20,104	24,167	23,415	(752)	(3)
Recovery Fund					
Other Special Funds and Accounts	27,517	13,479	13,948	469.0	3
Reimbursements	52,573	64,559	64,085	(474)	(1)
Total Expenditure	\$178,669	\$192,820	\$188,848	(\$3,972)	(2%)
Positions	1,297.4	1,398.3	1,392.1	(6.2)	0

Major Provisions for the State Controller

21st Century Project. The budget includes \$6.5 million (\$3.6 million General Fund, \$2.9 million other funds and five positions) on a one-time basis in 2014-15 to address litigation and related support efforts associated with the payroll system.

Last year, the Assembly was not supportive of adding additional funding for the legal fees associated with the project and instead requested that those fees be used for the an independent assessment. The assessment would serve the purpose of understanding how to move forward by learning what went wrong with the project. However, the final budget included funding for those one-time legal fees and no assessment.

This year, the budget continues to request new General Fund monies for additional legal fees, and suggests that those legal fees could continue to grow. The SCO filed the lawsuit because of a stalemate in negotiations and the SCO decided that if they did not sue first, the vendor, SAP would have sued for breach of contract. A breach of contract could potentially cost the state an additional \$55 million. To date, the total project funding request is \$286 million.

Issues for Consideration

The Assembly will have to address how it moves forward with the 21st Century Project. Similar to last year, this year's budget proposal is focused solely on the lawsuit. There is an unknown timeline and unknown costs for ongoing legal fees. Will the legal fees surpass \$55 million that could be the potential cost of a breach of contract? If the state wins down the road, how many years will be lost by focusing on a lawsuit and nothing else? What is the status of the legacy systems? The Assembly will have to evaluate the responsibility of the State and the SCO moving forward with this project.

Background

In 2004, the SCO proposed the 21st Century Project (TFC), a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. The new system was designed to replace the "legacy systems" which were developed more than 30 years ago. Known as MyCalPAYS, the project was intended to manage payroll, benefits, and timekeeping in a more central and cost efficient manner than the legacy systems.

The SCO is responsible for issuing pay to the state's 294,000 employees statewide, and therefore responsible for the implementation and management of the new system. The SCO developed a two-phase procurement process that would allow the agency to first contract to purchase commercial software and second to contract with a vendor to modify the software to meet the state's systems integration needs. The project had delays early on that extended the schedule by two years and increased project costs from \$130 million to \$180 million. In 2009, SCO terminated the original integration services contract.

In 2010, a new integration services contract was procured and project schedule and costs were revised. The schedule was extended to October 2012 and the total costs rose from \$180 million to \$283 million. Implementation of the project was supposed to occur in five phases or pilots. These early pilots were designed to integrate a small number of employees into the system in order to test the system prior to the full launch of the system. A number of challenges occurred with the early pilots and as a result SCO sent a cure notice to the primary vendor in order to make changes. Once again the project costs increased to \$373 million and the schedule of completion moved to September 2013.

In February 2013, the SCO terminated its contract with the vendor citing inaction by the vendor in response to the cure notice and a lack of confidence that the project could be completed by the vendor. The California Technology Agency suspended further work on the project until a new plan could be created. For now, the SCO has reverted to the legacy system to administer payroll processing.

In June 2013, the budget included additional funding for legal fees and for the SCO to work on reconciling the issues that were created from the launch of the program on a small scale. In November 2013, the SCO filed a lawsuit against SAP. The lawsuit is still pending.

Other Key Provisions

The proposed workload budget adjustments for the SCO's office include an increase of \$5.7 million in General Fund, \$15.5 million in other funds and an increase of 105.4 positions for 2014-15. The proposed workload adjustments include the 21st Century project as well as those proposals summarized below:

- **Software Cost Increases.** The SCO requests \$3,482,000 (\$797,000 GF, \$1,692,000 Reimbursements, and \$993,000 Special Funds) in 2014-15 through 2017-18 to continue funding for increased Data Center Services to support Computer Associate, Integrated Data Management System (IDMS) technology and other software products. The costs associated with the IDMS product continues to climb, and will likely climb more if SCO becomes the sole user.

- **CalPERS Pension System Ongoing Workload.** The SCO requests 15 five-year limited term positions and \$1,356,000 (\$759,000 in General Fund and \$597,000 in Special Funds) from 2014-15 to address the increased workload generated by the implementation of the CalPERS Pension System Resumption Project. This project consolidated 49 existing computer systems and the existing SCO's Uniform State Payroll System files and records. The consolidation created problems including a backlog of errors and ongoing errors. The proposal discusses evaluating the program in five years, but it seems that a five year period is a long time to wait to see if corrections are being resolved.
- **Major Legislative Reform Workload.** The proposal requests 3.2 two-year limited term positions and \$328,000 (\$184,000 in General Funds and \$144,000 in Special Funds) in 2014-15 to support the impact of major changes to the SCO's Uniform Payroll System and associated business processes as a result of California Public Employees' Pension Reform Act and Federal Patient Protection and Affordable Care Act legislation.
- **Sustained Accounting and Reporting Workload.** This proposal requests the continuation of 2.1 two-year limited-term positions and \$217,000 (\$122,000 in General Fund and \$95,000 in Central Service Cost Recovery Fund) in 2014-15 and 2015-16 to enable the SCO Division of Accounting and Reporting to continue statewide cash management. The continuation of these positions will help to alleviate the backlog created over the past five years to manage the cash management in the state.
- **Local Government Oversight Initiative.** The SCO requests \$1,159,000 in reimbursement authority to support nine existing positions to continue to provide increased oversight of local government entities including cities, counties, and special districts. In 2011-12, a Finance Letter was approved to provide the SCO with three-year limited-term funding to support 16.4 positions to provide increased oversight of local government under existing law. This BCP would allow the SCO to continue to provide increased oversight of local government entities.
- **Statewide Training for Departmental Personnel and Payroll Staff.** This proposal includes funding for human resources to provide training programs for human resources staff, to develop new statewide training programs, and developing e-learning opportunities. The proposal request four two-year limited term positions and \$390,000 (\$218,000 in General Fund and \$172,000 in Special Funds) in 2014-15.

Unclaimed Property. There are a number of budget request proposals dealing with Unclaimed Property. A report to the Legislature on Unclaimed Property is overdue from the SCO. The report will help shed some light on how the Unclaimed Property Division is performing and will aid in evaluating the BCPs outlined below. .

- **Unclaimed Property Fraudulent Claims Prevention and Detection Program.** The SCO requests 16 two-year limited term positions and \$2,095,000 from the Unclaimed Property Fund in 2014-15 and \$2,082,000 in 2015-16 to detect and prevent the payment of fraudulent unclaimed property claims. In 2012-13, 17.9 positions for the Fraudulent Claims Prevention and Detection Program as a pilot project for two years, this proposal would continue the pilot program.

- **Unclaimed Property Insurance Workload.** This proposal requests 11 permanent positions and \$1,117,000 in Unclaimed Property Fund in 2014-15, and ongoing to continue to address workload resulting from life insurance companies failing to meet requirements to reunite owners with their unclaimed property.
- **Unclaimed Property Holder Compliance Initiative.** The SCO requests 23 permanent positions and 42,475,000 from the Unclaimed Property Fund in 2014-15, and ongoing to assist in reuniting owners with their lost property by continuing the Holder Outreach and Compliance program. This program identifies and contacts non-reporters or inconsistent reporters of unclaimed property, bringing them in compliance with the Unclaimed Property Law.
- **Unclaimed Property Provisional Language Change.** Includes a request to review the provisional language to more clearly define which program-related expenditures are to be paid from this appropriation and which are to be paid from the continuous appropriation.
- **Unclaimed Property 1577 Assessments.** The SCO requests three permanent positions in 2014-15, and ongoing to process assessments of fees and interest penalties when holders of unclaimed property do not remit escheated funds to the State in accordance with the Unclaimed Property Law. The SCO claims that the proposal will generate \$9.0 million in General Fund revenues annually.
- **Unclaimed Property Securities Workload.** The budget includes a proposal for 23.1 three-year limited-term positions and \$1,999,000 from the Unclaimed Property Fund in 2014-15, to properly manage the securities portfolio and sell securities within the timeframe mandated under law.

DEPARTMENT OF GENERAL SERVICES

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 of 2012 created the Government Operations Agency and, as part of the plan, moved the Department of General Services (previously budgeted within State and Consumer Services Agency) to this new Government Operations Agency.

As an enterprise organization, the Department of General Services provides centralized services to state agencies in the areas of: management of state-owned and leased real estate; approval of architectural designs for local schools and other state-owned building; printing services; procurement of commodities, services, and equipment for state agencies; and initiatives to reduce energy consumption and help preserve California resources.

The Governor's Budget proposes total spending of \$1.052 billion (\$8.66 General Fund) for the Department of General Services in 2014-15, an increase of 3.0 percent, and 3,596.4 personnel, an increase of 1.0 percent.

Other Key Provisions

- **Excess Properties: Interim Support and Consultant Services.** The Governor's Budget includes \$1.5 million and a commensurate loan from the General Fund in FY 2014-15 for the Asset Management Branch within the Department of General Services. Of the requested amount, \$658,000 is needed for external consultant services, and the

remaining \$848,000 is needed to provide interim support in FY 2014-15 for the surplus disposition of the Agnews Developmental Center.

- **Mercury Cleaners Site Remediation.** The Governor's Budget includes a one-time \$1.0 million (General Fund) augmentation for the Mercury Cleaners preliminary work and investigation to determine the full scope of site remediation work necessary at the state-owned property located at 1419 16th Street. The remediation is necessitated by the detection of contaminant dry cleaning solvents in soil, soil vapor, groundwater, and indoor air samples caused by historical discharge of hazardous wastes and products associated with the dry cleaning business that has operated on the site since approximately 1947.
- **Equipment Maintenance Management Insurance Program: Pilot Program Expansion.** The Governor's Budget includes \$195,000 (Service Revolving Fund) in FY 2014-15, and \$195,000 in FY 2015-16, and 2.0 two-year limited-term positions to support the expansion of the Equipment Maintenance Management Insurance Program. The Department of General Services is a "fee-for-service" agency, meaning the costs of the 2 positions will be recovered through rates set for services provided to client departments.
- **Office of Administrative Hearings: Permanent Staff Augmentation.** The Governor's Budget includes \$1.8 million (Service Revolving Fund) and 19 positions starting in FY 2014-15. \$1.1 million of these funds will come from offset contract funding. Additional Administrative Law judges and support staff are necessary to address increases in case filings, and ensure timely completion of administrative hearings.
- **Contracted Agency Administrative Services.** The Governor's Budget includes \$373,000 (\$174,000 Service Revolving Fund and \$199,000 Reimbursement) and 3.0 positions to provide fiscal and information technology services to the newly established Government Operations Agency and Business, Consumer Services and Housing Agency; and provide human resources services to the Business, Consumer Services and Housing Agency.
- **Electric Vehicle Charging Station Installation.** The Governor's Budget includes \$1.0 million in reimbursement authority for FY 2014-15, and \$600,000 in FY 2015-16 for the Executive Office of Sustainability within the Department of General Services. These funds are available through the California Energy Commission in order to satisfy the requirements of two executive orders issued in 2012 and will be used to install additional electric vehicle supply equipment in the Department of General Services' parking facilities statewide that do not currently have this equipment.
- **Elimination of the Video Multimedia Center.** The Governor's Budget eliminates the Office of State Publishing's Video Multimedia Center by June 30, 2015. This serves to inform client agencies currently using Video Multimedia Center services of this change and includes a transition plan to identify alternative service providers.
- **Sale Leaseback Legal Fees.** The Governor's Budget includes an estimated current-year (FY 2013-14) General Fund increase of \$492,000, and \$582,000 in FY 2014-15 for the Asset Management Branch of the Real Estate Services Division within the

Department of General Services. These funds are needed for continuing legal costs resulting from a lawsuit related to the Sale Leaseback Initiative.

- **Greenhouse Gas Emission Reductions Through Green State Buildings.** The Governor's Budget includes \$20 million (Greenhouse Gas Reduction Fund) and 9.0 positions beginning in FY 2014-15 to support activities intended to reduce greenhouse gas emissions in state buildings.
- **AB 744: Intellectual Property.** The Governor's Budget includes a permanent augmentation of \$393,000 (Service Revolving Fund) and 2.0 positions in 2014-15, and \$319,000 in FY 2015-16 to create a state legal policy framework for capitalizing on state-created intellectual property, and to create and maintain necessary legal licenses mandated by AB 744 (Perez) Chapter 463, Statutes of 2012. This bill created a statutory requirement to address state Intellectual Property management and established the state's first Intellectual Property oversight program. The costs will be recovered through the Department of General Services annual statewide surcharge assessment.
- **AB 341: California Building Standards Commission Workload Augmentation.** The Governor's Budget includes \$153,000 (Building Standards Administration Special Revolving Fund) for FY 2014-15, \$152,000 in 2015-16, and 1.0 two-year limited-term position for the California Building Standards Commission due to an increased workload associated with the implementation of AB 341 (Dickinson) Chapter 585, Statutes of 2013.
- **AB 650: Natural Gas Services Program Fund.** The Governor's Budget includes a shift in source funding from the Service Revolving fund of \$249 million to the Natural Gas Services Program Fund, for the purchase of natural gas, and \$1.203 million to support 4 existing positions within the Program. AB 650 (Nazarian) Chapter 615, Statutes of 2013 established the Natural Gas Services Program Fund as a continuously appropriated fund for the purpose of purchasing natural gas. This is a net zero change to the State Budget.
- **Capital Outlay.** The Governor's Budget includes \$2.5 million (General Fund) to develop a long-range planning study for the Sacramento Region to determine the best course of action to address the state's infrastructure deficiencies and space needs within this region. The study will also be used as the basis for developing detailed cost and scope information to be contained in future budget proposals.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low-income households in the state by forming partnerships with developers, investors and public agencies. CTCAC works with public and private entities to assist with project development and also monitors project compliance. CTCAC coordinates its functions with state and local housing fund providers and with private fund investors in the provision and maintenance of affordable housing. CTCAC consist of seven members from state and local governments, with the State Treasurer serving as chair. Other members are the Governor (or Director of Finance), State Controller, Director of Department of Housing and Community Development, Executive Director of California Housing Finance Agency, and two representatives from local government.

The budget calls for \$6.6 million and 40 positions for 2014-15. This represents a slight increase from the 2013-14 funding level of \$6.3 million. CTCAC is funded through fees generated by the issuance of debt and reimbursement, with no General Fund support.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	0%
Special Funds and Accounts	5,506.0	6,299.0	6,576.0	277.0	4
Reimbursements	96.0	60.0	110.0	50.0	83
Total Expenditure	\$5,602.0	\$6,359.0	\$6,686.0	\$327.0	5%
Positions	37.3	40.0	40.0	0.0	0

Other Key Provisions

- **Compliance Monitoring Operating Expense Augmentation.** CTCAC requests operating expense augmentation of \$300,000 in Special Funds to address increased costs for in-state travel and contracting costs associated with requirements from the Housing and Economic Recovery Act of 2008. Additionally, CTCAC requests \$50,000 in reimbursement authority and expenditure authority to address increase costs with the Compliance monitoring training. There is no impact on the General Fund.

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

The California Secure Choice Retirement Savings Investment Board (SCIB) studies the feasibility of implementing a state-administered retirement savings program for private sector employees in California with no access to workplace retirement savings plans. The SCIB consists of nine members including the State Treasurer (Chairperson), the Director of Department of Finance, the State Controller, a retirement savings and investment expert appointed by Senate Committee on Rules, an employee representative appointed by the Speaker of the Assembly, a small business representative, a public member, and two additional members all appointed by the Governor. The SCIB was established by SB 1234 (Chapter 734, Statutes of 2012) and requires additional legislation and legislative approval of the plan before further action can be taken.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$-	\$0	\$0	\$0	0%
Secure Choice Retirement Savings Program Fund	-	250	750	500	200
Total Expenditure	\$-	\$250	\$750	\$500	200%
Positions	0	0	0	0	0

Other Key Provisions

- The SCIB requests a reappropriation of the remaining balance of the 2013-14 appropriation in order to conduct a market analysis to determine whether the necessary market conditions for implementation can be met. The request also includes provisional language allowing for additional expenditure authority if needed. This funding appropriation was approved in the 2013 Budget Act.

CALIFORNIA SCHOOL FINANCE AUTHORITY

The California School Finance Authority (CSFA) provides facilities and working finance capital to school districts, community college districts, county offices of education, and charter schools. CSFA consists of the following members: State Treasurer, who serves as chair, the Superintendent of Public Instruction, and the Director of the Department of Finance. CSFA currently administers and oversees the following programs: Smart Bonds, Charter Schools Facilities, Charter Schools Facilities Incentive Grants, Charter School Facilities Credit Enhancement Grants, Qualified School Construction Bonds, Charter School Facility Grants, and Charter School Revolving Loans.

Budgeted expenditures for 2014-15 are \$126.1 million with an increase of two positions over current year. The California School Finance Authority Fund is not subject to Budget Act appropriation and is for information only.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$-	\$281	\$373	\$92	33%
General Fund, Proposition 98	-	92,031	92,031	0	0
Other Funds	18,042	33,678	33,687	9	0
Total Expenditure	\$18,209	\$125,990	\$126,091	\$101	0%
Positions	6.4	8.0	10.0	2.0	33

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-BIZ)

The Governor's Office of Business and Economic Development (GO-Biz) provides a single point of contact for economic development, business assistance and job creation efforts. The GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, and support private sector job growth. GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation, and entrepreneurship. GO-Biz administers and oversees the following programs: GO-Biz, California Business Investment Services, Office of the Small Business Advocate, and Infrastructure Finance and Economic Development.

Budgeted expenditures for 2014-15 are \$22.1 million with an increase of 10 positions over the current year. This represents a slight increase by 1.3 million or 6 percent over the current year.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,755	\$7,708	\$8,672	\$964	13%
California Infrastructure and Economic Development Bank Fund	-	9,266	9,481	215	2
California Small Business Expansion Fund	-	(25,506)	(25,343)	(163)	(1)
Other Funds	36	29,286	29,292	6	0
Total Expenditure	\$2,791	\$20,754	\$22,102	\$1,348	6%
Positions	18.7	74	84	10	14

Major Provisions

Last year, the Legislature passed and the Governor signed a proposal to reform California's economic development programs. The proposal aimed at changing programs that were failing to create new jobs and stimulate job creation by repealing the State's Enterprise Zone tax credit and the New Jobs Hiring Credit and replacing them with new programs.

In place of these programs the following was created:

- A new hiring credit focusing on areas with high unemployment and poverty rates.
- A sales tax exemption for manufacturing or biotech research and development equipment purchases.
- The California Competes tax credit to provide businesses tax credits in exchange for investments and employment expansion in California.

The table below outlines the changes to the budget from the current year to 2014-15 through the creation of the new economic development programs.

Economic Development Initiative			
Fund Source (millions)	2012-13 Preliminary	2013-14 Projected	2014-15 Forecast
Repeal Enterprise Zones	\$0	\$95	\$375
Repeal Hiring Credit	0	14	21
New Hiring Credit	0	(8)	(37)
Sales Tax Exemption for Manufacturing Equipment	0	0	(486)
California Competes	0	0	(32)
Total	\$0	\$101	(\$159)

Other Key Provisions

- **California Competes Tax Credit Program.** GO-Biz is requesting to establish 10 two-year limited term positions and \$965,000 to allow Go-Biz to meet the requirements of AB 93 and SB 90.
- **Made in California.** GO-Biz is requesting 3.0 permanent positions and \$500,000 (GF) to meet the requirements of SB 12. SB 12 created a new labeling program for California Businesses to use and market their "Made in California" products.

STATE TREASURER

The State Treasurer provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state including investments of temporarily idle state monies, administration of the sale of state bonds, and payment of warrants or checks drawn by the State Controller or other state agencies.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$2,727	\$4,806	\$4,666	(\$140)	(3%)
Reimbursements	20,478	22,154	22,547	393	2
Central Service Cost	2,353	2,420	2,564	144	6
Recovery Fund					
Total Expenditure	\$25,558	\$29,380	\$29,777	\$397	1%
Positions	215.8	233.4	236.4	3	1

Other Key Provisions

- **Debt Management System (DMS) II.** STO requests \$1,056,000 in expenditure and reimbursement authority in 2014-15 to continue the DMS II project that was originally authorized in the 2013-14 budget. DMS II will implement a replacement system for the STO's existing debt management system. The project consists of \$169,000 for procurement assistance, \$151,000 for Independent Verification and Validation vendor, \$154,000 for CalTech oversight, and \$582,000 for personal services. There is no General Fund impact.

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) was established to promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. CAEATFA consists of five members including the State Treasurer (Chairperson), the State Controller, the Director of Department of Finance, the Chairperson of the California Energy Commission, and the President of the Public Utilities Commission.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$-	\$-	\$-	\$-	-
Renewable Resource Trust Fund	5,183	2,600	17,032	14,432	555
Energy Resources Programs Account	-	5,811	5,612	(199)	(3)
California Alternative Energy Authority Fund	869	1,536	1,559	23	1
Reimbursements	27	48	3,248	3,200	6667
Total Expenditure	\$6,079	\$9,995	\$27,451	\$17,456	175%
Positions	8.1	13	19.5	7	50

Other Key Provisions

- **Implementation of CPUC Energy Efficiency Financing Pilot Programs – CA Hub for Energy Efficiency Financing (CHEEF).** CAEATFA requests reimbursement and expenditure authority in the amount of \$4.4 million and seven limited-term positions to enable it to serve as the administrator of investor-owned utility (IOU) ratepayer-funded energy efficiency financing pilot programs authorized by the CPUC. There is no General Fund impact since the program will be funded through ratepayer funds.
- **Residential PACE Loss Reserve Fund Implementation and Administration.** CAEATFA request a reappropriation of \$10 million in 2014-15 from the Energy Resources Program Account to provide credit enhancements for the financing of home energy efficiency project and energy upgrades. The 2013-14 budget included a \$10 million appropriation, but due to a delay in the passage of authorizing legislation the project was slowed down. This reappropriation would keep the project moving.

OFFICE OF PLANNING AND RESEARCH (OPR)

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. The OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, and resource protection. The OPR acts as the state's liaison to a variety of entities including local government, planning professionals, small business, and the military. The OPR houses the Advisor on Military Affairs and supports the Strategic Growth Council. The mission of California Volunteers is to increase the number and impact of Californians involved with service and volunteering throughout the state. California Volunteers is administered through the OPR but for all intents and purposes is a standalone entity.

The Governor's Budget proposes \$135.4 million (\$3.4 million General Fund) for OPR, an increase of almost \$100 million for the current year levels. This increase is the result of the proposed use of Cap and Trade funding for the Sustainable Communities Strategies grant program, which is administered by the Strategic Growth Council. Because the Strategic Growth Council would serve as fiduciary role, descriptions of this proposal are described with other Cap and Trade proposals in the Resources section of this report.

DEPARTMENT OF BUSINESS OVERSIGHT

The Department of Business Oversight (Department) regulates state-licensed financial institutions, products and professionals to provide accessibility to a fair and secure financial services marketplace. The Department serves California by enforcing the state's financial services laws and providing resources to Californians to make informed financial decisions.

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the Department of Financial Institutions and the Department of Corporations were merged to create the Department of Business Oversight (Department) in the Business, Consumer Services, and Housing Agency. The 2012-13 information for the Department of Financial Institutions and the Department of Corporations is displayed in Organization Code 2150 and 2180, respectively.

The Governor's Budget proposes total spending of \$83.8 million (Non General Fund) for the Department of Business Oversight in 2014-15, an increase of 4.1 percent from the current year, and 601 personnel, an increase of 3.3 percent from the current year.

Major Provisions

National Mortgage Settlement: Foreclosure Education and Outreach Program

The Department regulates state-licensed banks and credit unions as well as consumer finance lenders, mortgage brokers, and mortgage loan originators under the California Finance Lenders Law. The Department also regulates mortgage bankers, mortgage services, and mortgage loan originators under the California Residential Mortgage Lending Act.

California is one of many states still weathering the economic devastation stemming from the foreclosure crisis. In April 2013, there were 10,472 Notices of Default and 9,753 Notices of Sale in California. Notices of Default are the first step in the foreclosure process. Notices of Sale serve as the final notice before the sale and set the date and time of the auction.

In February 2012, the U.S. Department of Justice, the Department of Housing and Urban Development and 49 state attorney generals signed the \$25 billion National Mortgage Settlement with five major mortgage services: Bank of America, Citi, JPMorgan Chase, Wells Fargo, and Ally/GMAC (who served \$83 billion in California home loans and is the only licensee of the Department involved in the settlement), for their lack of due process of foreclosures. As part of the settlement, each participating state banking regulator received \$1 million to execute the settlement agreement. As a signator to the 2012 National Mortgage Settlement, California was one of 49 states to receive \$1 million in settlement funds to assist homeowners.

To enhance consumer education and outreach in areas hardest hit by foreclosure, the Governor's Budget includes \$1 million (State Corporations Fund) to assist homeowners who have been impacted by foreclosures by providing foreclosure prevention and recovery education in regions that have been most impacted. This is a one-time augmentation of \$500,000 (State Corporations Fund) in Fiscal Year (FY) 14-15, and, \$500,000 (State Corporations Fund) in FY 2015-16.

Broker-Dealer and Investment Adviser Program

One of two programs in the Department of Business Oversight's Division of Corporations is the Broker-Dealer/Investment Adviser Division. One of the primary functions of the division is the licensing and regulation of investment advisers, investment adviser representatives, broker-dealers (BD) and broker-dealer agents pursuant to the Corporate Securities Law of 1968. The purpose of this regulatory oversight is to ensure that the investing public is protected from unethical and fraudulent activities and to ensure that California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews and regulatory examinations of the licensee population.

In enacting Senate Bill SB 538 (Hill) Chapter 335, Statutes of 2013, the Legislature found that the Department lacked fee revenues necessary to perform the regular examinations of broker-dealers and investment advisers necessary to protect consumers and discover and discourage illegal and fraudulent activity. Examinations help to establish investor confidence and encourage investing, which provides the funds for capital formation and business development, fueling the state's economic recovery.

To effectively examine Investment Advisers on a four-year cycle, Broker-Dealers with home offices in California on a five-year cycle and Broker-Dealer branches on a ten-year cycle, the Governor's Budget includes \$7.9 million (Non General Fund) and 36 program positions, to be hired over two years. These resources will enable the Department to extend its current examinations to a greater number of licensed broker-dealers and investment advisers. The four-year examination cycle is standard practice by other states and the Financial Industry Regulatory Authority.

ALCOHOLIC BEVERAGE CONTROL

The Department of Alcoholic Beverage Control is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

Effective July 1, 2013, pursuant to the Governor's Reorganization plan No. 2 of 2012, the Department of Alcoholic Beverage Control was moved from the Business, Transportation, and Housing Agency to the Business, Consumer Services, and Housing Agency.

The Governor's Budget proposes total spending of \$57.9 million (Non General Fund) for the Department of Alcoholic Beverage Control in 2014-15, an increase of 3.3 percent compared with estimated spending for the current year. Proposed staffing totals 429.9 personnel a 0.5 percent increase.

Other Key Provisions

The Governor's budget includes two proposals related to legislation implementation.

- ***Winemaker Instructional Events Autographing.*** The Governor's Budget includes 1.0 position and \$99,000 (Special Fund) to implement AB 636 (Hall), Chapter 329, Statutes of 2013.
- ***Invitation-only parties at licensed retail locations.*** The Governor's Budget includes 1.0 Agent position and \$99,000 (Special Fund) in 2014-15, and \$89,000 in 2015-16 to implement AB 1116 (Hall), Chapter 461, Statutes of 2013.

CITIZENS REDISTRICTING COMMISSION

The "Voters First Act" (Proposition 11) and the "Voters First Act for Congress" (Proposition 20) reformed the redistricting process and established an independent 14-member Citizens Redistricting Commission (Commission) to draw the decennial district boundaries for California's Congressional delegation, state Senate, state Assembly, and Board of Equalization. The districts are based on strict, non-partisan rules delineated in California's Constitution that are designed to ensure fair representation and are defended by the commission as the sole legal defender.

The Governor's Budget proposes total spending of \$91,000 (General Fund) for the Citizens Redistricting Commission in 2014-15, an increase of 28.2% from the current year. Proposed staffing levels remain the same at 0.5 personnel.

Major Provisions

Citizens Redistricting Initiative

The Principal work of the Commission is to defend the produced maps in litigation, and to defend any action regarding a certified final map as required by the California Constitution. The other constitutionally mandated activities include, but are not limited to: amendments to improve the established process for redistricting, archiving the Commissions historical documents, and responding to Public Records Act requests. Periodically, the Commission requires legal counsel for ongoing litigation matters and to ensure it is properly fulfilling its duties. The Commission's ongoing activities require the continued support of accounting, budgeting, and personnel.

The Governor's Budget includes \$20,000 (General Fund) for ongoing contracted fiscal services and legal services. Of the \$20,000, \$15,000 will support an interagency agreement with the Department of General Services, Contracted Fiscal Services/Human Resources for budgeting, accounting and personnel services; and \$5,000 is for external legal services assistance.

CALIFORNIA LAW REVISION COMMISSION

The California Law Revision Commission (Commission) has the responsibility to make a continuing substantive review of California statutory and decisional law, to recommend legislation to make needed reforms, and to make recommendations to the Governor and Legislature for revision of the law on major topics, as assigned by the Legislature, that require detailed study and cannot easily be handled in the ordinary legislative process. The Commission consists of seven gubernatorial appointees plus one Senator, one Assembly Member, and the Legislative Counsel. The Commission's work is independent, nonpartisan, and objective.

The Governor's Budget proposes total spending of \$814,000 (No General Fund) for the Commission in 2014-15, an increase of 16.12 percent from the current year, and 5.5 positions, an increase of 0.1 percent from the current year.

Major Provisions

The Commission has experienced an increased workload for attorneys, due to the following legislation:

- ABx1 26 (Blumenfield), Chapter 5, Statutes of 2011 which assigned the Commission the task of analyzing and 'cleaning up' the Community Redevelopment Law to reflect the phasing out of community redevelopment.
- ACR 98 (Wagner), Chapter 108, Statutes of 2012 which assigned the Commission the task of analyzing and redrafting the entirety of the Fish and Game Code, and analyzing whether mediation confidentiality law should be changed in cases of attorney malpractice and other professional misconduct
- SCR 54 (Padilla), Chapter 115, Statutes of 2013 which assigned the Commission the task of analyzing and modernizing California law governing law enforcement access to the customer records of electronic communication providers (including cell phone companies, ISPs, and social media companies).

The Governor's budget includes two proposals to address the Commission's increased workloads:

Critical Funding Shortfall. The Administration includes a permanent increase of \$50,000 in the Commission's budget to increase the Commission's baseline budget to address a funding shortfall due to an increased Legislative workload.

Need for Attorney Support. The Governor's Budget includes a permanent increase of \$62,000 (No General Fund) and 0.5 positions to cover salary and benefits for the Commission's legal staff to enable the Commission to make progress in meeting Legislative workload mandates.

CALIFORNIA COMMISSION ON DISABILITY ACCESS

The Commission on Disability Access was established in 2008 pursuant to Chapter 549, Statutes of 2008, and subsequently redefined pursuant to Chapter 383, Statutes of 2012, to study existing disability access requirements and compliance, and to promote better compliance with existing laws and regulations, such as the Americans with Disabilities Act and the California Unruh Civil Rights Act. The Commission also acts as an information center on disability access compliance statutes and regulations, coordinates with state agencies and local building departments, and prevents or minimizes compliance problems by California businesses. Lastly, the Commission develops recommendations that enable persons with disabilities to exercise their right to full and equal access to public facilities, and facilitate business compliance with laws and regulations to avoid unnecessary litigation.

The Governor's Budget proposes total spending of \$511,000 (General Fund) for the California Commission on Disability Access in 2014-15, an increase of 22.8 percent from the current year, and 601 positions, an increase of 33.3 percent from the current year.

Other Key Provisions

Accessible California. The Governor's Budget includes \$95,000 (General Fund) and 1.0 position to support the increased workload associated with the implementation of SB 1186 (Steinberg), Chapter 383, Statutes of 2012. SB 1186 imposed additional responsibilities on the Commission that cannot be fulfilled at the current staffing and funding levels, or through the continued use of volunteers and student assistants.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT/ CALIFORNIA HOUSING FINANCE AGENCY

The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities and promote strong communities. The Department (1) administers housing finance, economic development, and community development programs; (2) develops housing policy and advocates for an adequate housing supply; and (3) develops building codes and regulates manufactured homes and mobile parks. Additionally, HCD provides technical and financial assistance to local agencies to support housing development.

The mission of the California Housing Finance Agency (CalHFA), which was statutorily chartered in 1975 to be the State's affordable housing bank, is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund - HCD	\$6,991	\$7,143	\$8,633	\$1,490	21%
CalHFA Funds	-	43,346	41,653	(1,693)	(4)
All Other HCD Funds	188,658	541,349	218,434	(322,915)	(60)
Total Expenditure	\$195,649	\$591,838	\$268,720	(\$323,118)	(55%)
HCD Positions	519.5	529.1	532.1	3	1
CalHFA Positions	-	312.6	312.6	0	0
Total Positions	519.5	841.7	844.7	3	0

Other Key Provisions

There are four budget change proposals included for HCD's budget in 2014-15. These proposals include the following:

- **Transfer of Funds.** HCD request to transfer support costs associated with administering the Rental Housing Construction Programs, from the Rental Housing Construction Fund to the Rental Rehabilitation Fund. This includes a reduction of two positions and \$225,000 in funding in 2015-16.

- **Awards for the Housing Related Parks Program.** HCD is requesting \$25 million to fund awards pursuant to the Proposition 1C – Housing Related Parks Program (HRPP). Last year, the budget included a \$25 million appropriation for the program. This allocation has not been awarded yet, but HCD anticipates that the first allocation will be completed by June of 2014. It is still unknown as to whether \$25 million is the appropriate funding amount for this program in 2014-15, since there is no data from the current year to study.
- **Community Development Block Grant (CDBG) Compliance and Improvements.** HCD requests \$1.515 million in 2014-15 to repay the Department of Housing and Urban Development (HUD) in the amount of \$544,000 and to fund nine three-year limited term positions for \$971,000 to ensure oversight of the program. The CDBG program has suffered from challenges from both the state and federal funding reductions. A federal compliance audit showed that the state owed HUD \$5.9 million. This proposal includes a plan to repay HUD with three installments of \$544,000, as well as a reduction of \$1.426 million in funding for the program over the next three years.
- **Consolidation of Funds.** This proposal would eliminate stale funds that have had no activity for many years and would not affect any housing programs. Funds would either revert back to the General Fund or be moved to other programs within HCD's budget.



VETERANS

California is home to more than two million veterans, and as the nation's two recent wars continue to wind down, it is estimated that more than 35,000 veterans will return annually to the state from military service.

In California, multiple public agencies, ranging from the Employment Development Department to the Department of Motor Vehicles, run veterans' programs and gather data on veterans. Two lead agencies are the California Department of Veterans Affairs (CalVet) and County Veterans Service Officers (CVSOs). The Governor, the Legislature, and these state and local agencies face a daunting task of meeting the needs of older veterans and working to help connect younger veterans to federal benefits, employment, housing and other services.

Last year the state signed a Memorandum of Understanding with the federal government to implement statewide "Strike Force Teams" to address the United States Department of Veterans Affairs (USDVA) backlog of veterans claims to receive federal benefits they are owed for their service. These benefits include medical care, education, burial, and pension benefits. A backlog of claims can lead to disabled veterans suffering from severe health issues, unemployment, or other problems, waiting more than a year for federal assistance.

To ensure California veterans receive the federal benefits they deserve in a timely manner the Assembly initiated and the 2013-14 adopted budget included a \$3 million increase in subvention funding to County Veterans Service Officers (CVSOs) to the Joint Claims Initiative solely to be used to reduce the backlog of claims. The Strike Force Teams are a limited-term collaboration with USDVA that allows state employees to work in regional offices to address the California backlog and ensure that incoming claims have been properly developed.

As of December 27, 2013, California Department of Veterans Affairs (CalVet) had distributed 94 percent of the funding to CVSOs. 23 of the 36 authorized positions (64 percent) have been filled, and CalVet expects to be 85 percent staffed by March, 2014. CVSOs are veterans, and county employees who are there to assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible. CalVet has struggled to fill all 36 positions because extensive claim development experience is required. The team members are placed and managed at each of the three CalVet District Offices, which are co-located at the USDVA Regional Offices in San Diego, Los Angeles, and Oakland.

These allocations have already created a significant boost in the state's ability to improve turnaround times, and therefore the quality of life of California veterans and their families. As of December 27, 2013, the Strike Force Teams at the CalVet district offices in Oakland, Los Angeles and San Diego had collectively reviewed 3,171 claims since September 2013. Currently, claim turnaround times are as low as one week. Reduction of the veterans claims backlog continues to remain a priority for the Assembly, and CalVet will continue to submit monthly Joint Claims Initiative progress reports to the Legislature.

Significant policy areas the Assembly may wish to consider:

- The \$3 million allocated to CalVet for the Joint Claims Initiative has allowed California to implement Strike Force Teams and make huge progress in decreasing the veterans claims backlog and getting California veterans the federal benefits they deserve. These Teams are limited-term, but with an estimated 350,000 veterans returning to California this year CalVet will need to continue these service levels. The Assembly may wish to ask the Department how these successes will be continued and service levels maintained.
- Skilled Nursing Facilities (SNF) for veterans are operated at the Barstow, Chula Vista, West Los Angeles, and Yountville veterans' homes. The Redding and Fresno veterans' homes are proceeding to open their SNF Units and therefore intend to launch a "hiring blitz". Employees in all required positions must be in place prior to the SNFs being allowed to open. The Assembly may wish to ask CalVet how they intend to fill these positions, when they will be at full staffing capacity, and what efforts will be made to find eligible veterans to fill these positions.

CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)

CalVet provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the (CalVet) include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans using proceeds from the sale of general obligation and revenue bonds;
2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents; and,
3. Operating veterans' homes in Yountville, Barstow, Chula Vista, Greater Los Angeles and Ventura County with several levels of medical rehabilitation services, as well as residential services.

The Governor's Budget proposes total spending of \$399.6 million (\$334.2 million General Fund) for the Department of Veterans Affairs, a 7.8 percent increase from the current year, and 3,031.5 PYs, an increase of 13.3 percent from the current year.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$222,471	\$303,971	\$334,163	\$30,192	9.93%
Veterans Farm and Home Building Fund of 1943	54,327	54,284	54,885	601	1.11
Other Funds (11)	11,113	12,474	10,609	(1,865)	(14.95)
Total Expenditures	\$287,911	\$370,729	\$399,657	\$28,928	7.80%
Positions	1,895.70	2,674.70	3,031.50	356.80	13.34

Major Issues

Department enters final ramp-up phase for Veterans Homes in Redding and Fresno. An overwhelming majority of the department's expenditures – more than 80 percent - go toward operating the Veterans Homes of California (VHC), a system of eight veteran's homes, including two new facilities in Redding and Fresno. The 9.9 percent proposed increase in General Fund expenditures for CalVet in 2014-15 is attributable to the final ramp-up phase of staffing and residents in these two new facilities.

The VHC are long-term residential care facilities that provide California's aged or disabled veterans with rehabilitative, residential, medical and support services in a home-like environment. Spouses of veterans also are eligible for home membership. The homes are located in Yountville, Barstow, Chula Vista, Lancaster, Ventura, West Los Angeles, Redding, and Fresno. VHC-Yountville was established in 1884 as the first veterans' home in the United States, but the rest of the system was built during the past 20 years. The Lancaster, Ventura, and West Los Angeles homes admitted their first residents in 2010, while Fresno and Redding admitted their first residents in September and October of 2013, respectively.

While construction of the homes has been funded largely through state bonds and federal funds, significant VHC operations are supported by the General Fund. CalVet does receive revenue for VHC from member fees, federal per diem, Medicare and Medi-Cal. In 2014-15, the Administration projects spending \$297.37 million in State General Fund on the VHC, while receiving \$95.12 million in revenue, for a net General Fund impact of \$202.26 million.

Due to state budget constraints during recent years, CalVet has operated the VHC under capacity. CalVet is proposing a significant increase in residents for 2014-15 due to admitting the first residents in Redding and Fresno and more than doubling the number of residents in West Los Angeles. The following table indicates the capacity of each home and the projected average daily census for 2014-15. The Residential Care Facilities for the Elderly (RCFE) licenses at The Redding and Fresno VHC provides for double occupancy rooms to accommodate spouses, though currently these rooms are single occupancy. Even with the proposed increase, the system would maintain more than 600 empty beds.

Facility	Bed Capacity	Projected Average Daily Census, 14-15	Percent Change from 13-14
Yountville	1,184	994.1	0%
Barstow	400	212	0%
Chula Vista	400	290.6	0%
West Los Angeles	396	362.3	42.50%
Lancaster	60	86.1	43.50%
Ventura	60	86.1	43.50%
Redding	150	124.8	290%
Fresno	300	131.7	311.60%
Total	2,950	2,287.70	18.20%

In 2008 the Legislature approved the construction of a new VHC in Fresno. Construction began in May 2010 and was completed in April 2012. The United States Department of Veterans Affairs (USDVA) has reimbursed the State of California approximately 65 percent of total construction costs.

The funding and positions requested for VHC Fresno and Redding include staffing and resources for the remaining years of admissions taking the total census to an estimated census of 174 for VHC Fresno by the end of the fiscal year. In Redding, full occupancy is predicted to occur in March 2015. The requested resources reflect a resident and staffing ramp-up that will comply with the terms of the USDVA construction grant which requires the addition of at least eight residents per month. The timing of new employee hiring correlates to the opening of each neighborhood and is specific to each level of care.

The Governor's Budget proposes a total of \$11.46 million in additional funding for the Redding and Fresno homes for the final ramp-up stage of the new facilities. To complete the staffing ramp-up and admission of residents in the VHC Redding, the Governor's Budget includes \$3.896 million (General Fund) and 43.3 positions for FY 2014-15, and \$5.05 million (General Fund) and 48.8 positions ongoing. To complete the staffing ramp-up and admission of residents in the VHC Fresno, the Governor's Budget includes a funding proposal through 2016-17, consisting of:

- \$7.56 million (General Fund) and 89.0 positions in FY 2014-15, and \$12.837 million General Fund and 137.9 positions ongoing.
- \$4.14 million General Fund and 52.2 positions in FY 2015-16, and \$6.443 million General Fund and 70.1 positions ongoing.
- \$602,000 General Fund in FY 2016-17 and \$700,000 General Fund ongoing.

California Central Coast Veterans Cemetery (CCCVC). A California Central Coast Veterans Cemetery (CCCVC) will be constructed at the former Fort Ord Army base and will serve the interment needs of veterans in the six counties of Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. The overall goal of the Cemetery is to serve the needs of veterans living within a 75-mile radius of the six counties. The Cemetery will include 5,000 burial sites for the first ten years.

The Governor's Budget includes a capital outlay proposal for the construction phase of the CCCVC requesting \$1.42 million (Operations Fund) and \$6.8 million (Federal Trust Fund) for FY 2014-15. The total estimated construction cost is \$8.22 million.

The USDVA through its national Cemetery Administration State Cemetery Grants program will reimburse 100 percent of allowable costs for the design and construction of the Cemetery. Funds for design of the project were provided in the 2013 Budget act. The construction will include burial sites, an administration building, a maintenance yard and building, a committal shelter, and a memorial area.

The Governor's Budget also proposes \$10,000 from the Northern California Veterans Cemetery Perpetual Maintenance Fund for operations and maintenance. These funds will only be used to meet National Cemetery Standards for appearance and allow the cemetery to sustain perpetual maintenance efforts.

Other Key Provisions

- **County Veterans Service Office Auditor and Database Coordinator.** The Governor's Budget includes \$52,000 (General Fund) and 1.0 position to conduct oversight of County Veterans Service Office-based benefit claims processes and distribute subvention funds. This position would fulfill mandated auditing functions and coordinate veterans claims case management database analysis and maintenance with various parties, including the USDVA.
- **Position conversions.** The Governor's Budget includes two proposals related to converting Contracted Services positions to Civil Service positions, totaling \$2.2 million General Fund and an increase of 45 positions.

To comply with Government Code, CDVA is transitioning from contracted to civil service positions in food service classifications. The Governor's Budget proposes \$2.068 million General Fund and an increase of 43 positions to convert contracted positions to civil service positions in areas of security, food service and veteran claim service. The following changes are proposed for VHC Barstow, Chula Vista, Greater Los Angeles and Ventura Counties Lancaster, and Ventura:

- \$1.06 million and 20 positions (11 for food service, 8 for security, and 1 for Veteran claims).
- \$927,000 and 22 positions (13 for food service, 8 for security, and 1 for Veteran claims).
- \$40,000 and 0.5 position for Veteran claims.
- \$45,000 and 0.5 position for Veteran claims.

The Governor's Budget also includes \$96,000 General Fund and 2.0 positions to investigate claims of elder abuse, hostile work environment claims, and other miscellaneous employment related matters, testifying in administrative, civil, and criminal proceedings as necessary, freeing up medical staff needed to deliver patient care, and partner with law enforcement and outside agencies. The CDVA does not currently have positions dedicated to conducting investigations related to the above claims and has expended up to \$97,000 per year in contracting these services out over the last Four-year period.



LOCAL GOVERNMENT

For local government, the Governor's budget continues to focus on the wind down of redevelopment agencies. This section below will discuss the savings from redevelopment as well as the current pending lawsuits. The budget includes two new proposals in the local government arena including providing new tools for economic development and a state-county assessors' partnership agreement program. Both proposals are included in the budget as trailer bills. For mandates, the Governor proposes to fund the same mandates as funded in the FY 2013-14 enacted budget. The budget also includes the suspension of two mandates, both of which were proposed to be suspended last year, but were not suspended.

Significant Policy Questions the Assembly May Wish to Consider

- Redevelopment agencies were dissolved in February 2012, but the oversight of the dissolution process appears to be endless. The Assembly may wish to discuss what steps need to be taken and what the timeline looks like for moving from a point where the dissolution process includes major oversight to a process that has minimal maintenance as envisioned under AB 1484.
- With housing costs increasing again, and in the absence of redevelopment, the scarcity of affordable housing is again becoming apparent. Should funding increases for affordable housing be considered in the budget?
- What criteria should be used to evaluate state mandates that are proposed to be suspended through the budget process?

REDEVELOPMENT AGENCIES

As part of the 2011-12 budget agreement, the Legislature took action to eliminate redevelopment agencies (RDAs) in AB 26 X1 (Blumenfield) Chapter 5, Statutes of 2011, which eliminated traditional redevelopment, and AB 27 X1(Blumenfield) Chapter 6, Statutes of 2011, which created a new voluntary alternative. The California Redevelopment Agency, the League of California Cities, and others sued over the constitutionality of the two measures. As a result, the California Supreme Court invalidated AB 27 x1 but upheld the dissolution law in February 2012, redevelopment agencies were dissolved.

As part of the 2012-13 Budget Act, AB 1484 (Committee on Budget) Chapter 26, Statutes of 2012, was enacted to provide tools for successor agencies, oversight boards, and the Department of Finance to facilitate the wind down of RDA activities. AB 1484 created a process to transfer housing assets, audit RDA funds, and accounts to identify funds that should be remitted to local taxing entities, and required a long-range property management plan for the disposition of RDA properties.

Fiscal Year 2014-15 begins the third year in the wind down of redevelopment agencies. The savings from the elimination of the RDAs are starting to materialize but not without some continued issues between the Department of Finance and local agencies.

Savings from Redevelopment Elimination

The Governor's budget discusses the savings from the elimination of redevelopment agencies including General Fund savings of \$1.1 billion in 2013-14, \$785 million in 2014-15, and estimates ongoing savings of \$1 billion annually. Also in 2013-14 and 2014-15 combined, cities will receive \$525 million, \$605 million for counties, and \$205 million for special districts in general purpose revenues from the dissolution of redevelopment. Additionally, the budget anticipates ongoing property tax revenues of more than \$700 million annually to cities, counties and special districts combined. These savings were calculated prior to the Departments assertion that up to \$3 billion could be affected by pending lawsuits.

Lawsuits

There are over 100 lawsuits pending between Finance and dissolution agencies. According to Finance, tentative rulings in lawsuits between Finance and the cities of Brentwood and Foster City potentially could affect up to \$3 billion of the redevelopment monies. The main issue in these cases is how it can be legal for Finance to invalidate legal transactions that took place before dissolution. The tentative rulings have been issued, additional information has been requested by the presiding judges, and more information is expected at the end of January.

Governor's Proposal for Tools for Economic Development

The Governor's budget includes a proposal to expand the tax increment financing tools utilized by Infrastructure Financing Districts (IFDs). Under current law, cities, counties and special districts may establish IFDs to use tax increment financing to finance tax allocation bonds. The proceeds are then used for local development. IFDs require a two-thirds vote and are currently limited to the following types of projects:

- Highway and transit projects
- Water, flood control, sewer, and solid waste
- Child care facilities
- Libraries and parks

Governor's Infrastructure Financing Districts Proposal

Under the Governor's proposal, if the local agencies meet "benchmarks" then they are able to use the new tools in the Governor's proposal. The proposal includes:

- Expanding the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated necessary consumer services.
- Allowing cities and counties that meet the benchmarks to create these new IFDs and to issue related debt, subject to a 55-percent voter approval.
- Allowing new IFD project areas to overlap with the project areas of the former RDAs, while limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.

- Maintaining the current IFD prohibition on the diversion of property tax revenues from K-14 schools, to ensure no General Fund impact.

Benchmarks Cause Concern

This is the first time the Governor has proposed providing tools for local governments since the dissolution of RDAs. However, the Governor's budget states that the new tools should not come at the expense of the continuation of the dissolution of redevelopment agencies. For that reason, the proposal contains "benchmarks" that affect cities or counties that formerly operated an RDA who want to use the program. The benchmark that is the most troubling is the one related to lawsuits. As discussed above, Finance currently has over 100 lawsuits pending. If a local entity wants to utilize the new tools and has a lawsuit pending, they will not be eligible. The ability for Finance or a successor agency to go to court to resolve disputes was the agreed upon remedy when AB 1484 was enacted in 2012.

The benchmarks to take advantage of the new economic tools include:

- Receipt of a Finding of Completion from Finance
- Compliance with all State Controller's Office RDA audits findings
- Conclusion of any outstanding legal issues between the successor agency and Finance

Other Pending Legislation

In addition to the Governor's proposal, there are a number of measures currently pending before the Legislature that aim to provide economic tools for local governments. Last year, the Assembly passed off of the floor, ACA 8 (Blumenfield), Local Government Financing. This measure would amend the Constitution to allow a city, county, or special district to incur bonded indebtedness in order to fund specified public improvements and facilities with a 55 percent approval of the city, county or special district.

Similar to the Governor's proposal, this measure lowers the voting threshold similar to the requirements that are currently in place for school districts, community college districts, or county offices of education for local agencies. Also similar to the Governor's proposal, the measure expands the uses of what constitutes a public improvement and public facility for local economic development projects.

ACA 8 differs from the Governor's proposal in two ways. First, the measure is a Constitutional Amendment, and if passed by the Legislature will go directly to the voters instead of being subject to the Governor's signature. Second, the measure does not contain language that subjects local agencies to obligations related to redevelopment processes.

ACA 8 is currently parked in the Senate Governance and Finance committee and remains as an alternative, similar to other legislation, to the Governor's proposal

LOCAL MANDATES/COMMISSION ON STATE MANDATES

The Commission on State Mandates (COSM) is charged with the duties of examining claims and determining if local agencies and school districts are entitled to reimbursement for increased costs of carrying out activities mandated by the state. COSM was created as a quasi-judicial body and made up of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance and two additional members of local public bodies appointed by the Governor and approved by the Senate. This budget item appropriates the funding for staff and operation costs of COSM and appropriates non-education mandate payments to local governments. The Governor's Budget calls for expenditures of \$38.1 million, representing a decrease of 28 percent from the current year. Staff remains the same as current year at 13.0 positions.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$38,566	\$50,266	\$35,475	(\$14,791)	(29%)
Motor Vehicle Account	2,477	2,604	2,604	0	0
Other Funds	18	33	33	0	0
Total Expenditure	\$41,061	\$52,903	\$38,112	(\$14,791)	(28%)
Positions	10.3	13	13	0	0

Major Provisions of Local Mandates

Suspension of New Mandates

The Governor's Budget proposes to suspend two mandates that were proposed to be suspended in the last year's Budget Act.

- *Local Agency Ethics.* Imposes ethics training requirements on general law counties and eligible special districts including the following reimbursable activities: adopting a written policy when local officials can be reimbursed for travel, meals, lodging and other necessary expenses, and providing expense reports forms, information on ethics training courses, and maintain training records for five years. Last year the COSM found the cost estimate to be \$0 in implementing this mandate. Finance has stated that claims in the amount of \$29,336 have been submitted for 2006-07, 2010-11, and 2011-12, and therefore the mandate should be suspended. However, one claim in the amount of \$22,000 is for a water district that is not entitled to reimbursement. The decision on reimbursement lies with the Controller's office and is still pending.
- *Tuberculosis Control.* Requires local detention facilities to submit a written treatment plan to relevant health officers for tuberculosis (TB) patients when they are released or transferred to another jurisdiction and requires local health officers to review treatment plans from a health facility within 24 hours. Last year there was no statewide cost estimate available for this mandate. This year the statewide cost estimate is \$133,000.

Pre-2004 Mandate Obligations

The budget proposes to continue to defer the payment of the pre-2004 mandate obligations. Under statute, these pre-2004 mandate obligations, which will total \$900 million, must be paid by 2021. These pre-2004 mandates contribute to the Wall of Debt, which the Governor plans to

eliminate by 2017-18. The Governor's budget proposes to pay \$700 million in 2015-16 and \$150 million in 2016-17.

Mandates to be Funded

The Administration's budget proposes to fund \$33.6 million, which is down from last year's proposal. The main reason for the decrease is that claims submitted for the Sexually Violent Predator mandate has been reduced in scope due to the Passage of Proposition 83 in 2006. As a result COSM has ruled that only two of the previous eight activities remain reimbursable. The estimated cost to the state is now \$7 million down from current year of \$21.8 million.

	2014-15 Total Estimate
2014-15 Funded Mandates (000s)	
<i>Allocation of Property Tax Revenues</i>	520
<i>Crime Victims' Domestic Violence Incident Reports</i>	175
<i>Custody of Minors - Child Abduction and Recovery</i>	11,977
<i>Domestic Violence Arrest Policies</i>	7,334
<i>Domestic Violence Arrests and Victims Assistance</i>	1,438
<i>Domestic Violence Treatment Services</i>	2,041
<i>Health Benefits for Survivors of Peace Officers and Firefighters</i>	1,780
<i>Medi-Cal Beneficiary Death Notices</i>	10
<i>Peace Officer Personnel Records: Unfounded Complaints & Discovery</i>	690
<i>Rape Victim Counseling</i>	344
<i>Sexually Violent Predators</i>	7,000
<i>Threats Against Peace Officers</i>	3
<i>Unitary Countywide Tax Rates</i>	255
Total Funded Costs	33,567

STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT PROGRAM

The Governor's budget proposes to establish a State-County Assessors' Partnership Agreement Program to enhance local property assessment efforts. The budget includes a three-year pilot program, funded at \$7.5 million per year, and administered by the Department of Finance. The proposal is limited to nine county assessors' offices with a combination of urban, suburban, and rural counties. Under the proposal Finance is charged with reviewing the applications and selecting participants. The pilot will be evaluated at the end of the pilot period to decide whether or not to continue the program.

In order to participate in the program, the county must submit an application to Finance demonstrating work to be performed. The county must also agree to provide its assessor's office with a specified amount of matching county funds for each fiscal year to generate additional property tax revenues for local agencies by doing the following:

- Enroll newly constructed property and property ownerships changes
- Reassess property to reflect current market values
- Enroll property modifications that change the property's taxable value
- Respond to assessed valuation appeals

Additional information will be provided once the trailer bill language is available from Finance.



REVENUES

The Administration's budget forecasts total General Fund revenue of \$100.1 billion in 2013-14 and \$106.1 billion in 2014-15. The revenue forecast for 2014-15 is the first forecast to exceed the pre-recession revenue peak of \$102.6 billion. The economy is expected to continue its moderate improvement for the next couple of years.

The forecast for the January budget is completed before many high-income taxpayers make their end of year payments. Both December and January are key months for these payments. December payments were stronger than anticipated and barring any changes, it is anticipated that the May Revise revenue estimates will be higher than the Governor's January forecast

Personal Income Tax

The Personal Income Tax (PIT) is the state's largest single revenue source and is estimated to account for 66.8 percent of all General Fund revenues in 2014-15. The budget estimates that PIT will increase in 2013-14 by 5.6 percent from \$60.9 billion to \$64.3 billion from what was assumed in the 2013 Budget Act. Additionally, it estimates that PIT revenues will increase in 2014-15 to \$69.8 billion.

The passage of Proposition 30, increased PIT rates on upper-income taxpayers for a seven year period from 2012 to 2018, with rates of 10.3 percent for taxable income above \$500,000, 11.3 percent for taxable income over \$600,000, and 12.3 percent for taxable income above \$1,000,000.

The primary reason for the improved revenue forecast is due to the increased forecast for Personal Income Tax (PIT), which is driven by higher capital gains realizations for 2013 and 2014. The growth in capital gains is the result of growth in stock prices during the second half of 2013 and growth in real estate values.

At the time of the passage of the 2013 Budget Act, capital gains for 2014 were expected to be \$85.2 billion. But the budget forecasts 2014 capital gains to be \$108.3 billion. Capital gains are expected to decline to more normal levels moving forward. The amount of revenue the General Fund derives from capital gains can vary greatly from year to year.

Capital Gains Revenues As a Percent of General Fund Tax Revenues (Dollars in Billions)											
Annual Values	2004	2005	2006	2007	2008	2009	2010	2011	2012p	2013e	2014e
Capital Gains Realizations Tax Revenues from	\$75.5	\$112.4	\$117.9	\$132.0	\$56.3	\$28.8	\$55.3	\$52.1	\$104.1	\$87.5	\$108.3
Capital Gains	\$6.1	\$9.2	\$9.6	\$10.9	\$4.6	\$2.3	\$4.7	\$4.2	\$10.6	\$8.9	\$11.1
Fiscal Year Values	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Tax Revenues from Capital Gains	\$7.0	\$9.3	\$10.0	\$9.0	\$3.9	\$3.0	\$4.5	\$6.1	\$10.1	\$9.5	\$10.5
Total General Fund Tax Revenues	\$80.4	\$91.0	\$93.8	\$95.8	\$79.5	\$84.6	\$90.3	\$83.3	\$96.3	\$98.1	\$105.5
Capital Gains Percentage	8.8%	10.3%	10.7%	9.4%	4.9%	3.5%	5.0%	7.3%	10.5%	9.7%	9.9%

P=preliminary
E=estimated

Sales and Use Tax

The Sales and Use Tax (SUT) is forecasted to account for 23 percent of all General Fund revenues in the Governor's 2014-15 budget. The budget estimates the SUT revenues will generate \$22.9 billion in 2013-14, and \$24.1 billion in 2014-15. The slight growth that would be seen between the two years will be reduced by \$486 million due to the start of the manufacturing equipment sales tax exemption.

Beginning on July 1, 2004, a temporary 0.25 percent state sales tax rate was imposed with revenues to repay the Economic Recovery Bonds. The budget currently estimates that the Economic Recovery Bonds will be repaid in late 2014-15 and the rate adjustment will sunset.

Corporation Tax

Corporation tax is forecasted to contribute 8.3 percent of the all General Fund revenues. Corporation tax revenues were \$7.5 billion in 2012-13 and are expected to increase by 6.8 percent to \$8.0 billion in 2013-14. In 2014-15, they are expected to increase by 8.9 percent to \$8.7 billion.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department. The Governor's Budget proposed expenditures of \$689.4 million (\$658.6 million General Fund, 9 percent decrease) and 5,818.2 positions, a 1 percent decrease from 2013-14 for FTB.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$624,650	\$729,511	\$658,606	(\$70,905)	(10%)
Special Funds and Accounts	26,975	31,376	30,871	(505)	(2)
Total Expenditure	\$651,625	\$760,887	\$689,477	(71,410)	(9%)
Positions	5,596.80	5,771.20	5,818.20	47	1

Major Provisions

- Enterprise Data to Revenue (EDR) Project.** The budget provides for continued funding for FTB's EDR project, which will address the agency's return processing and utilization of data, as well as provide connections among various systems. The request includes \$75.1 million (\$68.5 million for Solution Provider payment) and 23 permanent, 42 limited term, and six temporary help positions in 2014-15, to continue implementation of the five and half year project. It is currently in its fourth year, and is on schedule, within scope and within budgeted project costs.
- Accounts Receivable Management Program.** FTB requests the reestablishment of 101 expiring two-year limited term Tax Program positions and \$7.7 million in General Fund. This request also includes provisional language to permit requests for temporary resources in 2014. The reestablishment of these positions will address the ongoing Accounts Receivable inventory. It is anticipated to be \$108 million in 2014-15 and 2015-16 at a cost benefit ratio of \$14 to \$1.
- Implementing Legislation – Hiring Credits and Like Kind Exchanges.** FTB requests \$954,000 and six limited term positions for 2014-15 and \$961,000 and 8 limited term positions for 2015-16 to implement and administer legislation that was chaptered last year.
- Data Security.** FTB requests \$2.6 million and seven positions in 2014-15 to accommodate workload growth and the implementation of new tools associated with increased demands for securing FTB's critical assets and ensuring confidentiality and privacy of taxpayer information.
- Asset Forfeiture Accounts.** This proposal requests Budget Act Authority of \$150,000 with provisional language to increase this amount upon approval by the Department of Finance and 30 day notification of the JLBC. The proposal will enable FTB to utilize the funds deposited in the Special Deposit Fund. There is currently \$325,529 in the fund, and Budget Act Authority language is needed to spend the funds.

BOARD OF EQUALIZATION

The State Board of Equalization (BOE) is comprised of five members: four members each elected specifically to the Board on a district basis, plus the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions on personal income and corporation taxes.

The Governor's Budget proposes resource support of \$564.6 million (\$317.1 million General Fund), and 4,848.1 positions for the BOE in fiscal year 2014-15, as shown in the following table. The budget proposes a total funding slight increase of \$2.1 million, and General Fund support increase of \$310,000, compared with spending estimates for the current year. Proposed staffing changes reflected in the budget increases slightly by 3.0 positions from the current-year estimate. However, the budget change proposals request converting expiring limited-term positions into permanent positions.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$287,025	\$316,845	\$317,155	\$310	0%
Other Funds	69,611	83,975	85,856	1,881	2
Reimbursements	144,643	161,718	161,646	(72)	0
Total Expenditure	\$501,279	\$562,538	\$564,657	\$2,119	0%
Positions	4,366.7	4,845.1	4,848.1	3.0	0

Major Provisions

- Southern California Appeals and Settlement Unit.** BOE requests \$3.6 million (\$2.4 million General Fund and \$1.2 million Reimbursements) and 22 two-year limited-term positions in 2014-15 and 2015-16 to continue the Southern California Appeals and Settlement Unit that was established as a pilot in the 2010 Budget Act. The original program included 22 limited-term positions, which are set to expire on June 30, 2014.
- Fire Prevention Fee.** This budget change proposal includes \$7.3 million (Special funds) and 72.7 positions (permanent establishment of 54.0 positions, 9.0 new positions, and 9.7 temporary staff in 2014-15. In 2015-16 it requests \$6.7 million (Special Funds) and 63.0 positions and ongoing \$5.9 million (Special Funds) and 54.0 positions to continue processing mandated workload associated with the implementation of the Fire Prevention Fee. Additionally, the proposal includes provisional language to allow the BOE to collect additional expenses from the State Responsibility Area Fire Prevention Fund if the actual processing costs exceed budget authorization.
- Intrusion Detection/ Intrusion Prevention System –Information Security.** BOE requests \$285,000 (\$186,000 General Fund and \$99,000 Reimbursements) and 2.0 permanent position in 2014-15 and \$255,000 (\$167,000 General Fund and \$88,000 Reimbursements) in 2015-16 and ongoing to administer, maintain, and inspect the network security solutions that comply with the Internal Revenue Service regulations.



PUBLIC SAFETY

California's Public Safety system is comprised of numerous state departments, agencies, offices, boards, commissions, and branches. These entities include: the Judicial Branch, the Commission on Judicial Performance, the Office of the Inspector General, the Judges' Retirement System Contributions, the California Office of Emergency Services, Local Law Enforcement Expenditures, the Department of Justice, the California Victim Compensation and Government Claims Board, the California Department of Corrections and Rehabilitation, the Board of State and Community Corrections, the Commission on Peace Officer Standards and Training, the Office of the State Public Defender, the Military Department, and the California Highway Patrol.

Major Policy Issues the Assembly may Wish to Consider:

- The Governor's Budget assumes that the federal courts will grant California a two-year reprieve on its prior order to reduce the state's prison population to 137.5% of system-wide design capacity. On February 10, 2014, the Federal Court granted the state the requested two-year reprieve. Considering this, the Legislature may wish to identify spending priorities in the realm of Rehabilitation and Recidivism reduction to further the state's ability to reduce the prison population in a sustainable manner.
- For fiscal year 2014-15, the Governor is projecting that CDCR's inmate population will increase by nearly 3,000 inmates. To the extent that projected increases materialize, the state is on a path to further complicating California's efforts to comply with existing and future court orders to reduce the state's prison population.

Considering that the crime rate for prison eligible felonies has remained relatively flat, the Assembly may wish to further analyze this issue to identify the factors driving this population trend (ie. sentencing laws, charging practices, parole revocation practices, etc.)

- The Governor's Budget proposes a \$100 million augmentation to the Judicial Branch's budget. The Assembly may wish to consider augmenting the Governor's proposal by adding \$20 million to expand the state's network of Collaborative Justice Courts. Currently, 55 of the state's 58 counties operate Collaborative Justice Courts. California's Collaborative Justice Court system is currently made up of courts focused on the following issues: Community, Drugs Adult/Juvenile, DUI, Elderly, Homeless, Mental Health, Reentry, Truancy, Veterans, and Youth/Peer, and Domestic Violence.

Collaborative Justice Courts have proven successful at contributing to the stabilization of Californian families by keeping targeted groups of lower level Adult and Juvenile offender in the community, in their families and working. Collaborative Justice Courts have also proven to reduce state and county inmate housing costs, particularly medical costs, as these offenders remain eligible for Medi-Cal as long as they are not housed in locked facilities. Moving forward, the state could potentially score significantly larger savings by utilizing Collaborative Justice Court if the Federal Courts order California to reduce its prison

population by housing inmates in out-of-state prison facilities (the current annual rate is \$30,000 per inmate).

If the Assembly chooses to direct additional funding to the states Collaborative Justice Courts system, it may wish to consider attaching reporting requirements that identify county jail and state prison population avoidance and associated cost avoidance. The assembly may also wish to consider how the Collaborative Justice Courts system impacts court calendars; as, the targeted populations would no longer crowd normal criminal court calendars.

- The Assembly may wish to identify which, if any, recommendations from the Assembly Select Committee on Justice Reinvestment are appropriate to be considered in the budget process. The Select Committee's recommendations are not yet published; however, the Assembly may wish to consider them as recommendations are formulated.
- Considering that a significant portion of California's inmate population is mentally ill (diagnosed and not), the state Assembly may wish to consider funding additional and/or alternative programming to address the needs of this population of Californians.
- The Governor's Budget proposes legislation to require that all county jail felony sentences be split between jail confinement and community supervision, unless the court finds it to be in the interests of justice to impose a 100% jail confinement sentence. Based on the Legislative Counsel's review of the Administration's proposed language, this proposal creates a state reimbursable local mandate by imposing a new set of duties on local governments. If the Legislative Counsel's assessment is correct, this proposal will result in significant unanticipated costs to the state.

Prior to deciding on this proposal, the Assembly may wish to examine the potential for incurring significant unanticipated costs.

- The Governor's Budget proposes legislation requiring that sentences over 10 years be served in state prison. The Administration specifies that the proposed change is only to be implemented if the Administration is successful in its efforts to meet its federal court ordered population cap.

It has been argued that, if not carefully drawn-up, this proposal could incentivize "heavy handed" sentencing resulting in unreasonably long state prison sentences. Considering this, the Assembly may wish to understand the implications of charging/sentencing practices prior to considering such a significant policy change (See further discussion below).

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates the most serious and violent felons, supervises many of them when they are released on parole, and provides rehabilitation programs to help them reintegrate into the community. The CDCR provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic, and vocational training, as well as healthcare services.

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to enhance public safety through safe and secure incarceration of the most serious and violent offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.

The CDCR is organized into the following programs: 1) Corrections and Rehabilitation Administration; 2) Peace Officer Selection and Employee Development; 3) Juvenile Operations and Offender Programs-Academic and Vocational Education and Health Care Services; 4) Adult Corrections and Rehabilitation Operations-Security, Inmate Support, Contracted Facilities, and Institution Administration; 5) Adult Parole Operations-Supervision, Community Based Programs, and Administration; 6) Board of Parole Hearings-Adult Hearings and Administration; 7) Rehabilitative Programs-Adult Education, Cognitive Behavioral Therapy and Reentry Services, Inmate Activities, and Administration; and, 8) Adult Health Care Services.

As one of the largest departments in state government, CDCR operates 37 youth and adult correctional facilities and 43 youth and adult camps. CDCR also contracts for multiple adult parolee service centers and community correctional facilities. CDCR operates an adult prisoner/mother facility, adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. CDCR has six regional accounting offices and leases approximately two million square feet of office space. CDCR's infrastructure includes more than 42 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide.

The Governor's 2014-15 Budget proposes funding of \$9.8 billion (\$9.5 billion General Fund) for the CDCR's Operations in 2014-15, an increase of 4.0 percent over the 2013-14 spending plan. The Governor's 2014-15 Budget also proposes funding of \$865.4 million (\$29.4 million General Fund) for the CDCR's Infrastructure Projects, a decrease of 29.0 percent from the 2013-14 spending plan. Total proposed spending for the CDCR is \$10.6 Billion (9.5 billion General Fund) for 2014-15.

The Governor's proposal also includes authority for 60,599 positions, a change of 0.0 percent from the 2013-14 level.

<u>CDCR - Programs</u>					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$8,534,272	\$9,263,117	\$9,494,977	\$231,860	3%
Proposition 98 - General Fund	16,824	17,910	17,698	-212	(1)
Total General Fund	8,551,096	9,281,027	9,512,675	231,648	2
Other Funds	191,194	160,228	319,906	159,678	100
Total Expenditure	\$8,742,290	\$9,441,255	\$9,832,581	\$391,326	4%
Positions	50,729	60,790	60,599	-191	0%

<u>CDCR - Infrastructure</u>					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
Infrastructure General Fund	\$18,585	\$54,444	\$29,421	-\$25,023	-46%
Infrastructure Other Funds	121,140	1,168,866	835,967	-332,899	(28)
Total Expenditure	\$139,725	\$1,223,310	\$865,388	-\$357,922	-29%

Major Provisions

Adult Inmate and Parolee Population

The adult inmate average daily population is projected to increase from 134,986 in 2013-14 to 137,788 in 2014-15, an increase of 2,802 inmates, or 2.1 percent. The average daily parolee population is projected to decrease from 45,934 in 2013-14 to 36,652 in 2014-15, a decrease of 9,282 parolees, or 20.2 percent. The increase in adult inmate population is due to an increase in new admissions and second striker admissions, while the parolee decreases are a result of Chapter 15, Statutes of 2011, which shifted the responsibility of certain parolees to counties. When compared to the projected average daily population at the 2013 Budget Act, these changes result in an increase of \$3.2 million (General Fund) in 2013-14 and a decrease of \$38.6 million (General Fund) in 2014-15.

Considering that the crime rate for prison eligible felonies has remained relatively flat, the Assembly may wish to further analyze this issue to identify the factors driving this population trend (ie. Sentencing laws, charging practices, parole revocation practices, etc.). Further, to the extent that projected increases materialize, the state is on a path to further complicating California's efforts to comply with existing and future court orders relating to reducing the state's prison population.

Mental Health Program

The population of inmates requiring mental health treatment is projected to be 33,480 in 2013-14 and 34,118 in 2014-15. This is an increase of 1,727 inmates in 2013-14 and 2,365 inmates in 2014-15 in comparison to the mental health population projected for the 2013 Budget Act. Based on existing Mental Health Staffing Ratios, these changes will result in a staffing cost increase of \$11.718 million in 2014-15.

Juvenile Ward Population

Compared to the 2013 Budget Act projections, the ward population is projected to increase by 32 in 2013-14 and decrease by 34 in 2014-15, for a total population of 711 in 2013-14 and 645 in 2014-15.

SB 105 (Steinberg) Chapter 310, Statutes of 2013

Pursuant to the June 20, 2013, order from the Federal Three Judge Panel presiding over the Plata/Coleman v. Brown case, California was required to reduce its prison population to 137.5% of system-wide design capacity by December 31, 2013. In response, the Governor proposed an

immediate plan to comply with the court's order, without relying on the early release of prison inmates. In the days following the Governor's release of his plan, there were indications that the Three Judge Panel might consider, temporarily, setting aside its prior inmate population reduction order if the state and plaintiff's attorneys could agree on a plan to comply with the population cap. In order to solidify these things, SB 105 was signed into law.

SB 105 contains the Governor's original plan to procure additional inmate housing capacity in order to comply with the Court's order to reduce California's prison population to 137.5% of system-wide design capacity by December 31, 2013. SB 105 also includes provisions to ensure the state's ability to quickly pivot if the court modifies the aforementioned inmate population reduction order. The provisions require the state to pinpoint savings realized from a reduced need to procure additional inmate housing capacity and redirect those savings toward efforts to reduce California's prison population, including reducing recidivism. Specifically, SB 105 stipulates that if the amount of funding necessary to comply with a revised court order is less than the \$315 million appropriated in the measure, the Director of Finance is required to direct the Controller to transfer the first \$75 million of such savings to the Recidivism Reduction Fund. SB 105 also stipulated that any additional savings is required to be allocated as follows: 50% shall revert to the General Fund and 50% shall be transferred to the Recidivism Reduction Fund.

Under the Governor's proposal (assuming a two year extension of the population cap), the expectation is that there will be \$87.2 million in SB 105 savings, of which \$81.1 million will be transferred to the Recidivism Reduction Fund and \$6.1 million to the General Fund. The Governor is proposing to appropriate the \$81.1 million in the Recidivism Reduction Fund as follows:

- \$11.8 million to expand substance use disorder treatment to ten additional state prisons.
- \$9.7 million to expand substance use and cognitive behavioral treatment to, in-state, contracted prison facilities.
- \$11.3 million to allow the CDCR to expand the Integrated Services for Mentally Ill Parolees (ISMIP) program from 600 to 900 slots in 2014-15. The ISMIP program is a comprehensive treatment model, focused on mentally ill parolees who are homeless or at risk of being homeless, which provides varied levels of care, supportive/transitional housing, and an array of mental health rehabilitative services to assist with the development of independent living in the least restrictive environment possible.
- \$8.3 million to convert a 600 bed facility in Stockton into a reentry hub over the next two years.

The Assembly may wish to alter this, or any preceding, portion of the Administration's proposal to direct resources in favor of Assembly priorities (ie. implementing the recommendations of the Assembly Select Committee on Justice Reinvestment, Social Impact Bonds, transitional housing for inmates, etc.). However, if the Assembly wishes to adopt this proposal, the Assembly may wish to insert provisional language requiring the CDCR to identify treatment goals and report on success and failure rates.

- \$40 million for reentry services to inmates within one year of release from prison. The proposal suggests that these services should be provided through reentry programs in jails or community-based facilities.

The Assembly may wish to alter this, or any preceding, portion of the Administration's proposal to direct resources in favor of Assembly priorities (ie. implementing the recommendations of the Assembly Select Committee on Justice Reinvestment, Social Impact Bonds, transitional housing for inmates, etc.).

Additional Contract Beds

The proposed budget includes \$405.2 million General Fund to continue the Three-Judge Panel compliance efforts outlined in SB 105. The proposal assumes a two-year extension in reaching compliance with the 137.5 percent population cap. This level of resources would allow the CDCR to secure 12,575 more contract beds than the amount funded in the 2013 Budget Act by June 2015. These inmates will be housed in a combination of public and private in-state and out-of-state contract beds.

Drug Interdiction

The Governor's proposed budget includes \$14 million (General Fund) and 81.0 positions to establish an enhanced drug interdiction program statewide. The proposed funding would support 71 additional search dogs, establishment of drug interdiction officers, additional research, supervisory and management positions, new ion scanners, additional video surveillance equipment, random drug tests, and temporary clothing to be worn by inmates during visitation. These changes are expected to be phased in over a two-year period.

It is unclear what, if anything, is being proposed to ensure that the supply side of the prison-drug issue isn't merely shifted to CDCR's contractors, trusted inmates who work on the perimeter of the facility, and/or CDCR employees who are all in and out of the state's prisons on a daily basis.

Substance Use Treatment

The Governor's proposal includes \$11.8 million (Recidivism Reduction Fund) and 44.0 positions to expand substance abuse treatment to 10 non-reentry hub institutions in 2014-15 and the remaining 11 non-reentry hub institutions in 2015-16. These programs are expected to be phased in over a two-year period.

If the Assembly wishes to adopt this proposal, the Assembly may wish to insert provisional language requiring the CDCR to identify treatment goals and report on success and failure rates.

Community Corrections Performance Incentive Grants (SB 678)

The Governor's Budget includes an increase of \$21.3 million, bringing total funding for the California Community Corrections Performance Incentive Act of 2009 (SB 678) to \$129.3 million. SB 678 provides performance-based incentive payments to county probation departments when they demonstrate success in reducing recidivism among adult felony probationers. This funding has increased because Chapter 310, Statutes of 2013 (SB 105), changed the calculation for the payments to counties so that it is now based on the amount the state saves by avoiding incarcerations in contracted facilities. The estimated annual cost of a contracted bed is \$29,491, which is being used as the state's savings for purposes of the SB 678 calculation.

Youthful Offender Parole Hearings (SB 260)

The Governor's Budget includes \$1.6 million (General Fund) and 3.5 positions on a one-year limited-term basis in support of youthful offender parole hearings pursuant to SB 260 (Hancock) Chapter 312, Statutes of 2013. SB 260 established a parole process for persons sentenced to state prison (adult prison) for crimes committed before attaining 18 years of age. SB 260 requires the Board to complete all of these hearings (currently estimated to be 685) by July 1, 2015. The Administration's workload estimate appears to be consistent with the resources requested.

Workers' Compensation

The Governor's Budget includes \$75 million (General Fund) to address the CDCR's rising workers' compensation costs. From 2009-10 to 2012-13, CDCR's workers' compensation costs grew by nearly \$90 million due to increases in open claims, cost of living adjustments, retirement and medical benefits, and State Compensation Insurance Fund fees. CDCR has committed to enhancing cost containment strategies; however, it is still anticipated that the Department will have at least a \$75 million shortfall in 2014-15.

If the Assembly wishes to adopt this proposal, the Assembly may wish to adopt it on a one-time basis to allow for further analysis of cost drivers and recurring assessment of actual need.

Correctional Officer Academy

The Governor's budget proposal includes \$61.7 million (General Fund) to increase the CDCR's Basic Correctional Officer Academy capacity from 720 in 2013-14 to 3,400 in 2014-15. This augmentation will allow CDCR to fill an increasing number of vacancies in its Correctional Officer classification due to retirements and other attrition. To facilitate an increased number of cadets, CDCR will be transitioning from a 16-week Academy to a 12-week Academy, where the final four weeks of training are provided at an institution. The 2014-15 adjustment builds upon Academy expansion efforts that commenced in 2013-14.

If the Assembly wishes to adopt this proposal, the Assembly may wish to adopt it on a limited-term basis to allow for further analysis of the state's actual Correctional Officer need.

Custody Relief

The Governor's Budget includes \$9 million General Fund to support custody positions needed to cover staff leave usage. The increase is attributable to the inclusion of essential categories such as Furlough and Personal Leave Program usage. The Administration has committed to reviewing this need on an annual basis to ensure appropriateness.

If the Assembly wishes to adopt this proposal, the Assembly may also wish to adopt it on a limited-term basis to allow for further analysis of the state's actual custody relief need.

Americans with Disabilities Act (ADA) Compliance

The Governor's Budget includes \$4.1 million (General Fund) for the California Correctional Health Care Services Unit to achieve compliance with a court-ordered remedial plan in the Armstrong lawsuit. The remedial plan includes detailed instructions for tracking, investigating and resolving allegations of non-compliance with ADA requirements, the Armstrong remedial plan, and prior court orders associated with this lawsuit.

Enhanced Class Action Litigation Representation

The Governor's Budget includes \$1.4 million (General Fund) to address litigation increasing in both volume and complexity in the CDCR's largest class action cases. The department is requesting these additional resources to contract with the Office of the Attorney General for five additional Deputy Attorney General positions to focus solely on these class action lawsuits.

Prior to making a decision on this proposal, the Assembly may wish to analyze the major cost drivers in this program and identify cost savings strategies to offset the requested resources.

Pharmaceuticals Augmentation

The Governor's Budget includes a reduction of \$10 million in 2013-14 and an increase of \$34 million in 2014-15 and ongoing in support of pharmaceutical costs. The requested changes will align the department's pharmaceutical budget with actual expenditures and projections.

If the Assembly wishes to adopt this proposal, the Assembly may wish to adopt it on a limited-term basis to allow for further analysis of cost drivers and cost-saving system modernizations similar to those employed by correctional facilities outside of the CDCR.

Other Key Provisions

- **Receiver's Acuity Based Staffing Model** - The Governor's proposal includes a reduction of 148.0 positions to support a staffing model based on the medical acuity of inmates and medical missions of the prisons. The Receiver's new staffing model is based on the medical acuity of the inmate population rather than adjusting medical positions based on changes in the total inmate population.
- **Abolished Vacant Positions** - The Governor's Budget includes a reduction of 240.9 vacant positions in various classifications and divisions throughout CDCR. When salary savings were eliminated in 2012-13, departments were directed to allocate funds to accurately reflect operational expenditures. This was expected to result in the elimination of positions historically held vacant to support the operational needs of departments. Given the concurrent timing of this policy and CDCR's Blueprint development, the Department did not have the opportunity to fully analyze their historical vacancy trends and eliminate positions in order to redirect the savings to support their operational needs.
- **Janitorial Services** - The Governor's Budget includes \$14.5 million to establish a statewide janitorial contract with the California Prison Industry Authority (CALPIA). The proposed janitorial services program uses CALPIA's focused oversight and inmate labor to remedy cleanliness issues cited in the recent court appointed, medical experts reports.
- **Health Care Facility Improvement Program Inmate/Ward Labor Resources** - The Governor's Budget includes \$1.1 million (reimbursement authority) and 11.0 positions in the CDCR's Facilities Planning Construction and Management Division to address workload associated with upgrading existing health care infrastructure within the CDCR's facilities. Current estimates from the Administration indicate a need for roughly \$220 million in new Health Care Facility Improvements that can be handled by the Inmate/Ward Labor program over the next four years.

- **CDCR Technical Adjustments** - The Governor's 2014-15 budget proposal includes numerous, no-cost, technical changes to the CDCR's budget. The proposed changes will help to ensure accuracy in expenditure reporting and aid in tracking program and institution budgets.

The Assembly may wish to confirm that the proposed technical changes don't have unintended impacts on departmental programs.

CDCR Infrastructure

The Governor's Budget Proposal includes major capital outlay projects, minor capital outlay projects, and additional funding to support statewide advanced planning and preparation of budget packages for capital outlay projects.

- **California Correctional Center: Arnold and Antelope Camp Kitchen/Dining Facility Replacement** – The Governor's Budget proposes \$1 million (General Fund) to support the planning phase of two Kitchen/Dining facility replacements at the California Correctional Center in Susanville. The Administration has identified numerous health and safety risks to inmates and staff as justification for this facility upgrade. This entire project is expected to cost roughly \$16.4 million (\$1 million for planning, \$1.1 million for working drawings and \$14.3 million for construction).
- **Ironwood State Prison Heating: Ventilation, and Air Conditioning System** – The Governor's Budget proposes \$145 million (lease revenue bond financing) for an ongoing project to replace the heating, ventilation, and air conditioning system at Ironwood State Prison in Blythe. This entire project is expected to cost roughly \$156.2 million (\$5.8 million for planning, \$5.4 million for working drawings and \$145 million for construction).
- **Northern California Reentry Facility: Renovation and Addition** - The Governor's Budget proposes \$8.3 million (Recidivism Reduction Fund) for the design phase of a new project to add new construction and renovate existing buildings at the new Northern California Reentry Facility (previously known as the Northern California Women's Facility) in Stockton. This entire project is expected to cost roughly \$130.3 million (\$3.3 million for planning, \$5 million for working drawings and \$122 million for construction).

The Governor's Budget also includes \$3.3 million (General Fund) for six minor capital outlay projects and budget packages.

FEBRUARY 10, 2014 RULING IN THE PLATA COLEMAN CASE ON PRISON OVERCROWDING

The state's current inmate population for its 34 adult prisons is roughly 117,600. The Federal Three Judge Panel's February 10, 2014 order requires the number of inmates to be reduced to 112,164 (137.5% of design capacity) by **February 28, 2016**.

New Population Reduction Benchmarks

- The Court's order requires California to meet the following interim and final population reduction benchmarks:
 - a. 143% of design bed capacity by **June 30, 2014**;
 - b. 141.5% of design bed capacity by **February 28, 2015**; and
 - c. 137.5% of design bed capacity by **February 28, 2016**.

Missed Benchmarks/ Inmate Releases

- The Court will appoint a Compliance Officer for the purpose of bringing defendants into compliance with any missed benchmark by ordering inmate releases.
 - If compliance with any benchmark is not achieved within a 30-day period following the expiration of any missed benchmark, the Compliance Officer shall, within seven days, direct the release of the number of inmates necessary to achieve compliance with the missed benchmark and the measures to be followed in selecting the prisoners to be released.
 - In selecting inmates for release, the Compliance Officer shall consider public safety by minimizing any risk of violent re-offense. The Compliance Officer is **not** authorized to order the release of condemned inmates or inmates serving a term of life without the possibility of parole.

Out- of State Housing of Inmates

- The Court specified that the state shall not increase the number of inmates housed in out-of-state facilities (currently approximately 8,900 inmates). The state shall also explore ways to reduce the number of inmates housed in out-of-state facilities to the extent feasible.

Population Reduction Measures

- The Court acknowledges that defendants intend to comply with this order in part through a combination of contracting for additional in-state capacity in county jails, community correctional facilities, and a private prison.
- The Court directed the state to develop reforms to state penal and sentencing laws designed to reduce the prison population. The state has also agreed to "consider" the establishment of a Commission to recommend reforms of state penal and sentencing laws (Sentencing Commission).

- The state has been directed to immediately implement the following measures:
 - **Credits** - Increase credits prospectively for non-violent second-strike offenders and minimum custody inmates. Non-violent second-strikers will be eligible to earn good time credits at 33.3% and will be eligible to earn milestone credits for completing rehabilitative programs. Minimum custody inmates will be eligible to earn 2-for-1 "good time" credits to the extent such credits do not deplete participation in fire camps where inmates also earn 2-for-1 good time credits;
 - **Parole Changes**
 - Parole consideration for non-violent 2nd strikers once they have served 50% of their sentence;
 - Earlier parole consideration for certain inmates serving Indeterminate Sentences,
 - Expansion of Medical Parole;
 - Parole consideration for elderly inmates (60 years or older) who have served 25+ years of their sentence; and
 - Expansion of Alternative Custody Program to include more female inmates.

Increased Rehabilitation/Reentry services

- The state has been directed to immediately implement the following measures:
 - Activate new reentry hubs at a total of 13 designated prisons to be operational within one year from the date of this order;
 - Expand pilot reentry programs with additional counties and local communities; and
 - Expand alternative custody program for female inmates.

Reporting

- The Court has ordered the state to report back monthly on the status of measures being taken to reduce the prison population, and on the current in-state and out-of-state adult prison populations. The first report shall be submitted on the 15th of the month following the date of this order (on 3/15/2014) and shall continue until further order of the Court.
- The Court has ordered the state to submit the categories of prisoners who are least likely to reoffend or who might otherwise be candidates for early release (the "Low Risk List") that the Court previously ordered them to create. The Low Risk List shall not be viewed by the Compliance Officer unless and until he or she is ordered to do so by this Court. Similarly, the Court will not inspect the list unless circumstances so warrant.
- The state shall file an amended "Low Risk List" every 60 days, should changes to the list become appropriate.

Long Term

The Court will maintain jurisdiction over this matter for as long as is necessary to ensure that the state's compliance with the 137.5% final benchmark is durable.

Future Appeals/motions/etc.

- The state has agreed not to appeal or support an appeal of this order, any subsequent order necessary to implement this order, or any order issued by the Compliance Officer.
- The state has agreed not to move or support a motion to terminate the order during the two-year extension period and such time as it is firmly established that compliance with the 137.5% design capacity benchmark is durable.

PUBLIC SAFETY REALIGNMENT

In 2011, Governor Edmund G. Brown Jr. signed AB 109 and AB 117 (Committee on Budget), Chapter 39, Statutes of 2011. These pieces of legislation have been instrumental in helping California close the revolving door of low-level inmates cycling in and out of state prisons. These pieces of legislation also serve as the cornerstone of California's solution for reducing the number of inmates in the state's 33 prisons to 137.5 percent of design capacity by May 24, 2013, as ordered by the U.S. Supreme Court.

All provisions of AB 109 and AB 117 were prospective from the 2011 implementation dates. Contrary to some media reports, no inmates were transferred from state prison to county jails or released early.

Low level offenders. Offenders convicted of non-serious, non-violent and non-sex offenses with some exceptions— who prior to realignment could have been sent to state prison – now serve their time in local jails or under a form of alternative custody overseen by counties.

Post-release community supervision. County probation departments now supervise a specified population of inmates discharging from prison whose commitment offense was non-violent and non-serious.

Parole violators. Parolees – excluding those serving life terms – who violate the terms of their parole serve any detention sanction in the local jail rather than state prison.

It is important to note that effective July 1, 2013 local courts will be responsible for parole revocation hearings for parolees who violate the terms of their parole.

County-level supervision responsibilities do not include the following offender populations as they continue to be supervised by the CDCR:

- Inmates paroled from life terms to include third-strike offenders:
- Offenders whose current commitment offense is violent or serious, as defined by California's Penal Code §§ 667.5(c) and 1192.7(c).
- High-risk sex offenders, as defined by the CDCR.
- Mentally Disordered Offenders.
- Offenders on parole prior to October 1, 2011.

Funding Realignment

In November 2012, California voters passed Proposition 30, which created a constitutional amendment prohibiting the Legislature from reducing Realignment funding to the counties. Realignment is funded with a dedicated portion of state sales tax revenue and Vehicle License Fees as outlined in trailer bills AB 118 (Committee on Budget), Chapter 40, Statutes of 2011, and SB 89 (Committee on Budget and Fiscal Review), Chapter 35, Statutes of 2011.

When AB 109 was implemented, the Administration proposed that a permanent base of funding for each county be established for the 2014-15 fiscal year. The assumption was that by then, most of the offenders going onto Post Release Community Supervision would be out of state prison and the program would be “fully implemented.” However, based on actual trends, the Administration has concluded that it is premature to make such a final decision at this point as more information is needed regarding the implementation of evidence-based practices. Therefore, the Administration is proposing that the allocation continue to be flexible for the next several years. The Administration has suggested that the permanent formula should encourage the use of incentives and evidence-based practices, reward efforts to improve outcomes such as recidivism reduction, and allow for maximum local control and flexibility.

Stakeholders are currently working on an allocation formula for the 2014-15 fiscal year. The following table reflects base Realignment funding, by county, through the current year (2013-14):

BASE AB 109 Allocations (Public Safety)						
County		2011-12 Total		*2012-13 Total		*2013-14 Total
ALAMEDA		\$10,402,192		\$29,816,533		\$35,092,345
ALPINE		\$185,064		\$256,036		\$184,878
AMADOR		\$701,328		\$1,251,879		\$1,364,765
BUTTE		\$3,177,024		\$5,862,129		\$6,767,777
CALAVERAS		\$488,080		\$908,739		\$958,225
COLUSA		\$337,160		\$540,584		\$522,012
CONTRA COSTA		\$5,259,544		\$19,692,463		\$23,097,173
DEL NORTE		\$345,000		\$654,043		\$656,463
EL DORADO		\$1,439,464		\$3,479,869		\$4,004,701
FRESNO		\$9,978,832		\$21,347,403		\$25,056,239
GLENN		\$466,520		\$775,411		\$800,235
HUMBOLDT		\$1,789,128		\$3,503,028		\$4,031,990
IMPERIAL		\$1,534,328		\$3,279,358		\$3,767,044
INYO		\$311,288		\$502,576		\$476,983
KERN		\$12,186,968		\$24,092,737		\$28,308,592
KINGS		\$3,266,576		\$6,256,784		\$7,294,651
LAKE		\$1,008,264		\$1,864,123		\$2,090,164
LASSEN		\$525,712		\$893,064		\$939,632
LOS ANGELES		\$124,735,264		\$272,620,890		\$322,775,072
MADERA		\$1,967,880		\$3,609,349		\$4,157,904
MARIN		\$1,592,952		\$4,770,006		\$5,474,273
MARIPOSA		\$283,064		\$445,051		\$408,825
MENDOCINO		\$1,199,560		\$2,203,219		\$2,491,922
MERCED		\$2,914,384		\$5,459,092		\$6,290,279
MODOC		\$185,064		\$269,551		\$200,894
MONO		\$210,936		\$392,882		\$347,035
MONTEREY		\$4,406,336		\$8,236,989		\$9,581,542
NAPA		\$1,263,848		\$2,609,961		\$2,973,900
NEVADA		\$669,968		\$1,892,063		\$2,123,426
ORANGE		\$25,734,096		\$57,456,878		\$67,840,512
PLACER		\$3,454,168		\$6,457,394		\$7,473,069
PLUMAS		\$270,128		\$461,529		\$428,359
RIVERSIDE		\$23,516,944		\$44,235,728		\$52,173,857
SACRAMENTO		\$14,738,496		\$28,809,133		\$33,896,589

SAN BENITO		\$706,032		\$1,217,393		\$1,323,895
SAN BERNARDINO		\$28,729,368		\$57,094,872		\$67,410,183
SAN DIEGO		\$27,977,120		\$60,367,223		\$71,288,397
SAN FRANCISCO		\$5,787,176		\$17,497,869		\$20,496,246
SAN JOAQUIN		\$7,657,976		\$15,205,480		\$17,838,057
SAN LUIS OBISPO		\$2,584,712		\$5,419,688		\$6,243,730
SAN MATEO		\$4,822,248		\$13,784,742		\$16,155,688
SANTA BARBARA		\$4,441,616		\$8,277,832		\$9,629,926
SANTA CLARA		\$14,103,456		\$34,473,225		\$40,609,072
SANTA CRUZ		\$1,989,656		\$5,395,344		\$6,215,148
SHASTA		\$3,406,912		\$6,474,232		\$7,552,273
SIERRA		\$185,064		\$284,024		\$217,659
SISKIYOU		\$592,352		\$1,015,179		\$1,084,314
SOLANO		\$4,362,824		\$8,754,282		\$10,194,576
SONOMA		\$3,735,232		\$9,313,487		\$10,857,540
STANISLAUS		\$6,800,280		\$12,635,731		\$14,793,173
SUTTER		\$1,391,640		\$2,657,183		\$3,029,803
TEHAMA		\$1,441,424		\$2,704,408		\$3,085,745
TRINITY		\$259,936		\$402,917		\$358,905
TULARE		\$6,409,848		\$12,094,205		\$14,151,617
TUOLUMNE		\$762,480		\$1,322,285		\$1,448,172
VENTURA		\$6,502,968		\$15,508,740		\$18,138,720
YOLO		\$3,441,232		\$6,306,599		\$7,294,376
YUBA		\$1,212,888		\$2,236,588		\$2,531,460
TOTAL		\$399,850,000		\$865,350,002		\$1,016,000,000

*2012-13 and 2013-14 Figures Do Not Include Growth

BOARD OF STATE AND COMMUNITY CORRECTIONS

The mission of the Board of State and Community Corrections (BSCC) is to provide statewide leadership, coordination, and technical assistance to promote effective state and local efforts and partnerships in California's adult and juvenile criminal justice system, including technical assistance and coordination to local governments related to 2011 public safety realignment. This mission reflects the principle of aligning fiscal policy and correctional practices, including prevention, intervention, suppression, and supervision. The goal is to promote a justice investment strategy that fits each county and is consistent with the integrated statewide goal of improved public safety through cost-effective, promising, and evidence-based strategies for managing criminal justice populations.

The BSCC and the California Department of Corrections and Rehabilitation (CDCR) jointly administer three local public safety facilities financing programs with combined total authorizations of up to \$1.5 billion in state lease revenue bond financing appropriated to CDCR to partially finance the design and construction of local adult jails and local youthful offender rehabilitative facilities. The BSCC also administers a separate adult local criminal justice facilities financing program with a total authorization of up to \$500 million in state lease revenue bond financing appropriated to BSCC to partially finance the design and construction of adult local criminal justice facilities.

The BSCC is organized into the following programs:

- Administration, Research and Program Support;
- Corrections Planning and Grant Programs;
- Local Facility Standards, Operations and Construction; and,
- Standards and Training for Local Corrections.

The Governor's 2014-15 Budget proposes funding of \$134.2 million (\$44.9 million General Fund) for BSCC Operations in 2014-15, an increase of 4.0 percent from the 2013-14 spending plan.

The Governor's proposal also includes authority for 84.3 positions, an increase of 4.0 percent over the 2013-14 level.

Fund Source (000s)	BSCC				% Change
	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	
General Fund	\$39,637	\$44,393	\$44,914	\$521	1%
Other Funds	55,303	84,945	89,326	4,381	5
Total Expenditure	\$94,940	\$129,338	\$134,240	\$4,902	4%
Positions	65.6	80.8	84.3	3.5	4

Major Provisions

Local Jail Construction

The Governor's 2014-15 budget proposal includes \$500 million in lease-revenue bond financing for the construction of local jail facilities in order to improve treatment space in local jails. This would bring the total state spending on local jail construction, since 2007, to \$2.2 billion. The Governor's proposal would require a 10 percent funding match from participating counties.

If the Assembly wishes to adopt this proposal, the Assembly may wish to insert control language making awards to counties contingent on their construction plans addressing the concerns voiced by counties such as sufficient rehabilitation space, capacity to house long-term offenders, etc.

Local Jail Bed Construction – State Fire Marshal Fees

The Governor's 2014-15 budget proposal includes \$517,000 (General Fund) to offset charges from the Office of the State Fire Marshal for workload associated with the planning and inspection of state-financed local jail facilities approved under Chapter 7, Statutes of 2007 (AB 900 Solorio).

Changes to Public Safety Realignment

- **Split Sentences** - The Governor's 2014-15 budget proposes legislation to require that all county jail felony sentences be split between jail confinement and community supervision, unless the court finds it to be in the interests of justice to impose a 100% jail confinement sentence. Based on the Legislative Counsel's review of the Administration's proposed language, this proposal creates a state reimbursable local mandate by imposing a new set of duties on local governments. If the Legislative Counsel's assessment is correct, this proposal will result in significant unanticipated costs to the state.
- **County Jail Sentence Cap** - The Governor's 2014-15 budget proposes that sentences over 10 years be served in state prison. (The Administration's preliminary estimates suggest that this would be approximately 300 offenders annually.) The Administration specifies that the proposed change is only to be implemented if the Administration is successful in its efforts to meet its court ordered population cap.

According to the Governor's Budget Summary, this proposal is intended to strike a balance between who is in jail and who is in prison. The Governor's Budget Summary also acknowledges that it will be important to have ongoing discussions to understand how charging practices may influence the number of offenders sentenced to more than 10 years.

The Assembly may wish to understand the implications of charging practices prior to, rather than after, considering such a significant policy change. In the meantime, counties have options for housing unmanageable long-term offenders including contracting with the CDCR, private prisons, and/or other counties. Further, the number of county jail inmates sentenced to 10 years or longer, thus far, is significantly lower than the Administration's preliminary estimate of 300 per year, which suggests that the urgency to make a final decision is not as great as suggested.

It may also be argued that any jail construction/modernization projects embarked on since enactment of the 2011 Public Safety Realignment should/should have included capacity to house offenders with long county jail sentences. The Assembly may wish to include such a requirement in all future county jail construction/modernization initiatives funded by the state.

Other Key Provisions

- **Statewide Local Correctional Officer Job Analysis** - The Governor's Budget includes one-time funding of \$410,000 (Corrections Training Fund) for a statewide job analysis for local correctional officer classifications, which will include an examination of how job requirements have changed since the implementation of the 2011 Public Safety Realignment, a county specific job analysis, and updates to selection exams and training standards. Depending on the findings, this analysis could create new cost pressures on local correctional agencies.
- **City Law Enforcement Grants** - The Governor's Budget includes \$27.5 million (General Fund) for cities in support of frontline law enforcement efforts.

COMMISSION ON PEACE OFFICER STANDARDS & TRAINING

The Commission on Peace Officer Standards and Training (CPOST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, improving management practices, and providing financial assistance to local agencies relating to the training of law enforcement officers.

The Governor's 2014-15 Budget proposes funding of \$55.6 million (special funds) for CPOST Operations in 2014-15, a decrease of 8.0 percent from the 2013-14 spending plan.

The Governor's proposal also includes authority for 123.0 positions, a 0.0 percent change from the 2013-14 level.

Fund Source (000s)	CPOST				% Change
	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	
Peace Officers' Training Fund	54,577	58,537	53,189	(5,348)	(9)
Other Funds	1,115	1,959	2,459	500	26
Total Expenditure	\$55,692	\$60,496	\$55,648	-\$4,848	-8%
Positions	119.7	123.0	123.0	0.0	0

Major Provisions

Peace Officers' Training Fund Reduction

The Governor's Budget includes a reduction of \$1.1 million in 2013-14 and \$6.6 million in 2014-15 to maintain solvency of the Peace Officers' Training Fund through June 2015. The savings plan in effect from January 2014 to June 2015 includes suspending certain training cost reimbursements, reducing contracts, and postponing some symposia, workshops, and seminars conducted by the Commission.

The reduction is being requested based on projections indicating that the Peace Officers' Training Fund will become insolvent during the 2014-15 fiscal year if left unchecked. The Administration has identified an unanticipated decline in State Penalty Assessment Fund revenue (from \$40 million in 2006-07 to \$31 million in 2012-13) as the main driver of the shortfall. This proposal will likely create cost and/or access issues for law enforcement personnel and agencies seeking training. To address any such issues, the Administration has identified the use of "learning portal courses".

The Assembly may wish to further examine this issue to better understand the implications of this proposal and how training and capacity building for the state's law enforcement community will be impacted.

Other Key Provisions

- **9/11 Memorial License Plate Antiterrorism Fund** - The Governor's Budget includes a one-time \$500,000 augmentation from the Antiterrorism Fund to continue its plan to develop and deliver timely and relevant anti-terrorism training to law enforcement personnel.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General (OIG) protects public safety by safeguarding the integrity of California's correctional system. The OIG is responsible for contemporaneous oversight of the California Department of Corrections and Rehabilitation's (CDCR) internal affairs investigations, use of force, and the employee disciplinary process. When requested by the Governor, the Senate Committee on Rules, or the Speaker of the Assembly, the Inspector General reviews the policies, practices, and procedures of the CDCR. The Inspector General reviews the Governor's candidates for appointment to serve as warden for the state's adult correctional institutions and as superintendents for the state's juvenile facilities; conducts metric-oriented inspection programs to periodically review delivery of medical care at each state prison and the delivery of reforms identified in the department's document released in April 2012 entitled "The Future of California Corrections: a blueprint to save billions of dollars, end federal court oversight, and improve the prison system." The OIG receives communications from individuals alleging improper governmental activity and maintains a toll-free public telephone number to receive allegations of wrongdoing by employees of the CDCR; conducts formal reviews of complaints of retaliation from CDCR employees against upper management where a legally cognizable cause of action is present; and reviews the mishandling of sexual abuse incidents within correctional institutions. The OIG provides critical public transparency for the state correctional system by publicly reporting its findings.

In addition, the Public Safety and Offender Rehabilitation Services Act of 2007, Chapter 7, Statutes of 2007, created the California Rehabilitation Oversight Board (CROB) within the OIG. The CROB's mandate is to examine the CDCR's various mental health, substance abuse, educational, and employment programs for inmates and parolees. The CROB meets quarterly to recommend modifications, additions, and eliminations of offender rehabilitation and treatment programs. The CROB also submits biannual reports to the Governor, the Legislature, and the public to convey its findings on the effectiveness of treatment efforts, rehabilitation needs of offenders, gaps in offender rehabilitation services, and levels of offender participation and success.

The Governor's 2014-15 Budget proposes funding of \$17.0 million (Peace Officers' Training Fund) for OIG Operations in 2014-15, an increase of 4.0 percent from the 2013-14 spending plan.

The Governor's proposal also includes authority for 95.4 positions, an increase of 2.0 percent over the 2013-14 level.

Fund Source (000s)	OIG			BY to CY Change	% Change
	2012-13 Actual	2013-14 Projected	2014-15 Proposed		
Peace Officers' Training Fund	13,507	15,762	17,031	1,269	8
Other Funds	0	604	0	(604)	(100)
Total Expenditure	\$13,507	\$16,366	\$17,031	\$665	4%
Positions	87.2	93.4	95.4	2.0	2%

Major Provisions

Medical Inspection Reviews

The Budget includes \$1.3 million for the OIG to employ clinicians in its medical inspection reviews and expand the number of medical inspection review teams from two to three. This new format will allow the OIG to measure the CDCR's ability to deliver a constitutional level of medical care as required in the Plata v. Brown lawsuit.

JUDICIAL BRANCH

The mission of the Judicial Branch is to resolve disputes arising under the law and to interpret and apply the law consistently, impartially, and independently to protect the rights and liberties guaranteed by the Constitutions of California and the United States, in a fair, accessible, effective, and efficient manner.

The Lockyer-Isenberg Trial Court Funding Act of 1997 provided a stable and consistent funding source for the trial courts. Beginning with fiscal year 1997-98, consolidation of the costs of operation of the trial courts was implemented at the state level, with the exception of facility, revenue collection, and local judicial benefit costs. This implementation capped the counties' general purpose revenue contributions to trial court costs at a revised 1994-95 level. The county contributions become part of the Trial Court Trust Fund, which supports all trial court operations. Fine and penalty revenue collected by each county is retained or distributed in accordance with statute. Each county makes quarterly payments to the Trial Court Trust Fund equal to the fine and penalty revenue received by the state General Fund in 1994-95, as adjusted by amounts equivalent to specified fine and fee revenues that counties benefited from in 2003-04. The Trial Court Facilities Act of 2002 provided a process for the responsibility for court facilities to be transferred from the counties to the state by July 1, 2007. The Trial Court Facilities Act of 2002 also established several new revenue sources, which went into effect on January 1, 2003. These revenues are deposited into the State Court Facilities Construction Fund for the purpose of funding the construction and maintenance of court facilities throughout the state. Counties contribute revenues for the ongoing operation and maintenance of court facilities based upon historical expenditures for facilities transferred to the state.

The Governor's 2014-15 Budget proposes funding of \$3.3 billion (\$1.3 billion General Fund) for Judicial Branch operations in 2014-15, an increase of 5.0 percent above the 2013-14 Budget Act. The Governor's 2014-15 Budget also includes \$210.4 million (special funds) for court infrastructure needs, a decrease of 80.0 percent from the 2013-14 Budget Act.

The Governor's proposal also includes authority for 1,964.0 positions, a change of 0 percent from the 2013-14 level.

Judicial Branch					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$747,578	\$1,219,757	\$1,325,043	\$105,286	9%
Other Funds	2,077,112	1,897,111	1,948,803	51,692	3
Total Expenditure	\$2,824,690	\$3,116,868	\$3,273,846	\$156,978	5%
Positions	1,695.9	1,964.0	1,964.0	0	0

Judicial Branch Infrastructure					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
Infrastructure General Fund	\$0	\$0	\$0	\$0	0%
Infrastructure Other Funds	385,059	1,061,806	210,379	(851,427)	(80)
Total Expenditure	\$385,059	\$1,061,806	\$210,379	-\$851,427	(80%)

Major Provisions

Trial Court Augmentation

The Governor's Budget includes a permanent \$100 million (General Fund) augmentation to support trial court operations. The proposal specifies that this funding shall be allocated based on the new Workload-based Allocation and Funding Methodology.

The proposed \$100 million (General Fund) augmentation to the trial courts' budget coupled with the \$60 million (General Fund) augmentation approved for the current year's (2013-14) budget are clear indications that the Administration and the Legislature recognize the need to restore court funding. The Assembly was instrumental in ensuring that access to the \$60 million included in the current year's budget was contingent on meeting specified accountability measures. Moving forward, the Assembly may wish to continue building accountability measures into future court funding augmentations.

Judicial Council Funding

The Governor's Budget includes a permanent \$5 million (General Fund) augmentation to support state court operations and the Judicial Council.

Trial Court Facility Modification Program Augmentation

The Governor's Budget includes a \$15 million (State Court Facilities Construction Fund) augmentation to support trial court facility maintenance and modification projects. These projects were reviewed, approved and prioritized by the Trial Court Facilities Modification Advisory Committee. The requested \$15 million augmentation brings the baseline funding for this program to \$65 million, plus \$10 million in reimbursement authority.

Other Key Provisions

- **Glenn-Willow Temporary Swing Space & Tenant Improvements** - The Governor's Budget includes \$807,000 (Immediate and Critical Needs Account) to complete tenant improvements and provide temporary workspace for court staff during the construction phase of the Willows Courthouse project. This proposal also calls for the approval of \$145,000 in 2015-16 and \$74,000 in 2016-17 all from the Immediate and Critical Needs Account.
- **Trial Court Trust Fund Augmentation - AB 1293 (Bloom) Chapter 382, Statutes of 2013)** - The Governor's Budget includes a \$190,000 (Trial Court Trust Fund) expenditure authority augmentation to accommodate new projected revenues authorized by AB 1293 (Bloom). AB 1293 is expected to increase revenues for the courts by creating a new probate fee. Specifically, this measure added, until January 1, 2019, a new \$40 fee for filing a request for special notice in a decedent's estate, guardianship, conservatorship or trust proceeding. This measure all clarified that the \$40 fee is in addition to any other fee charged for a paper filed concurrently with the request for special notice.

Judicial Branch Infrastructure

The Judicial Council's facilities consist of the Supreme Court, Appellate Courts, Trial Courts, and the Administrative Office of the Courts. The Supreme Court is located within the San Francisco Civic Center Plaza (98,155 square feet) and the Ronald Reagan State Office Building in Los Angeles (7,598 sf). The Courts of Appeal are organized into six districts, operate in 10 different locations, and consist of 508,386 sf. The Trial Courts are located in 58 counties statewide consisting of more than 500 buildings, 2,100 courtrooms, and approximately 12.5 million (sf) of usable area. The space includes public courtrooms, judges' chambers, staff workspace, storage space, training rooms, and conference rooms. The Administrative Office of the Courts facilities are primarily located in San Francisco (Headquarters), Burbank, and Sacramento and occupy 261,935 sf.

Court Infrastructure - The Governor's 2014-15 budget proposal includes \$210.4 million (\$101.7 million from bond sales and \$108.7 million from fees and penalties) to support sixteen major projects in various stages of construction (See Stage column for project status. A = Acquisition, C = Construction, P = Preliminary Plans, W = Working Drawings).

Projects by County	Actual		Estimated		Proposed	
	2012-13	Stage	2013-14	Stage	2014-15	Stage
BUTTE COUNTY	\$51,324		\$-		\$-	
Butte County-New North County Courthouse	51,324	C	-		-	
CALAVERAS COUNTY	\$-		\$1,188		\$-	
Calaveras County-New San Andreas Courthouse	-		1,188	C	-	
EL DORADO COUNTY	\$-		\$1,084		\$3,696	
El Dorado County-New Placerville Courthouse	-		1,084	A	3,696	P
GLENN COUNTY	\$-		\$2,600		\$34,793	
Glenn County-Renovation and Addition to Willows Courthouse	-		2,600	W	34,793	C
IMPERIAL COUNTY	\$-		\$3,344		\$-	
Imperial County-New El Centro Courthouse	-		3,344	W	-	
INYO COUNTY	\$-		\$-		\$1,930	
Inyo County-New Inyo County Courthouse	-		-		1,930	A,P
KINGS COUNTY	\$99,497		\$-		\$-	
Kings County-New Hanford Courthouse	99,497	C	-		-	
LAKE COUNTY	\$-		\$-		\$3,550	
Lake County-New Lakeport Courthouse	-		-		3,550	W
LOS ANGELES COUNTY	\$-		\$-		\$52,348	
Los Angeles County-New Mental Health Courthouse	-		-		33,457	A
Los Angeles County-New Eastlake Juvenile Courthouse	-		-		18,891	A
MADERA COUNTY	\$90,810		\$-		\$-	
Madera County-New Madera Courthouse	90,810	C	-		-	
MENDOCINO COUNTY	\$-		\$3,466		\$4,550	
Mendocino County-New Ukiah Courthouse	-		3,466	A	4,550	P
MERCED COUNTY	\$-		\$1,974		\$21,889	
Merced County-New Los Banos Courthouse	-		1,974	W	21,889	C
RIVERSIDE COUNTY	\$-		\$3,898		\$4,259	
Riverside County-New Indio Juvenile and Family Courthouse	-		3,484	W	-	
Riverside County-New Mid-County Civil Courthouse	-		414	A	4,259	P
SACRAMENTO COUNTY	\$-		\$10,000		\$-	
Sacramento County-New Sacramento Criminal Courthouse	-		10,000	A	-	
SAN BENITO COUNTY	\$52		\$1,099		\$-	
San Benito County-New Hollister Courthouse	52	C	1,099	C	-	
SAN DIEGO COUNTY	\$-		\$515,997		\$-	

San Diego County-New San Diego Courthouse	-		515,997	C	-	
SAN JOAQUIN COUNTY	\$-		\$246,471		\$-	
San Joaquin County-New Stockton Courthouse	-		243,266	C	-	
San Joaquin County-Renovate and Expand Juvenile Justice Center	-		3,205	C	-	
SANTA BARBARA COUNTY	\$-		\$-		\$4,411	
Santa Barbara County-New Santa Barbara Criminal Courthouse	-		-		4,411	P
SANTA CLARA COUNTY	\$-		\$205,258		\$-	
Santa Clara County-New Family Justice Center	-		205,258	C	-	
SHASTA COUNTY	\$-		\$-		\$6,028	
Shasta County-New Redding Courthouse	-		-		6,028	P
SISKIYOU COUNTY	\$-		\$3,277		\$4,518	
Siskiyou County-New Yreka Courthouse	-		3,277	P	4,518	W
SOLANO COUNTY	\$21,926		\$-		\$-	
Solano County-Renovation to Fairfield Old Solano Courthouse	21,926	C	-		-	
SONOMA COUNTY	\$-		\$-		\$7,670	
Sonoma County-New Santa Rosa Criminal Courthouse	-		-		7,670	P
STANISLAUS COUNTY	\$-		\$6,860		\$11,026	
Stanislaus County-New Modesto Courthouse	-		6,860	A	11,026	P
SUTTER COUNTY	\$-		\$51,308		\$-	
Sutter County-New Yuba City Courthouse	-		51,308	C	-	
TEHAMA COUNTY	\$-		\$3,982		\$46,662	
Tehama County-New Red Bluff Courthouse	-		3,982	W	46,662	C
TUOLUMNE COUNTY	\$-		\$-		\$3,049	
Tuolumne County-New Sonora Courthouse	-		-		3,049	P
YOLO COUNTY	\$121,450		\$-		\$-	
Yolo County-New Woodland Courthouse	121,450	C	-		-	
Totals, Major Projects	\$385,059		\$1,061,806		\$210,379	

STATE PUBLIC DEFENDER

The mission of the Office of the State Public Defender is to provide representation to indigents in post-conviction proceedings following a judgment of death.

The Governor's 2014-15 Budget proposes funding of \$11 million (General Fund) for State Public Defender Operations in 2014-15, a change of 0 percent from the 2013-14 spending plan.

The Governor's proposal also includes authority for 66.5 positions, a change of 0 percent from the 2013-14 level.

State Public Defender					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$10,101	\$10,825	\$10,870	\$45	0%
Total Expenditure	\$10,101	\$10,825	\$10,870	\$45	0%
Positions	62.5	66.5	66.5	0	0%

Major Provision

- **Augmentation for Rent Cost Increases** - The Governor's Budget includes a \$45,000 increase in 2014-15 to offset increases in office lease costs. This proposal also includes out-year costs (\$40,000 in 2015-16, \$58,000 in 2016-17, and \$32,000 in 2017-18) totaling \$130,000 for a grand total of \$175,000 over four years.

DEPARTMENT OF JUSTICE

The constitutional office of the Attorney General, as chief law officer of the state, has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice.

The Department of Justice is responsible for providing skillful and efficient legal services on behalf of the people of California. The Attorney General represents the people in all matters before the Appellate and Supreme Courts of California and the United States; serves as legal counsel to state officers, boards, commissioners, and departments; represents the people in actions to protect the environment and to enforce consumer, antitrust, and civil laws; and assist district attorneys in the administration of justice. The Department provides oversight, enforcement, education, and regulation of California's firearms/dangerous weapon laws; provides evaluation and analysis of physical evidence; regulates legal gambling activities in California; supports the telecommunications and data processing needs of the California criminal justice community; and pursues projects designed to protect the people of California from fraudulent, unfair, and illegal activities.

The Governor's 2014-15 Budget proposes funding of \$771 million (\$194.4 million General Fund) for Department of Justice operations in 2014-15, a change of 0 percent from the 2013-14 Budget Act.

The Governor's proposal also includes authority for 4,720.2 positions, a change of 0 percent from the 2013-14 level.

Department of Justice					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$153,519	\$177,771	\$194,380	\$16,609	9%
Other Funds	506,912	591,322	576,577	(14,745)	(2)
Total Expenditure	\$660,431	\$769,093	\$770,957	\$1,864	0%
Positions	4,171.1	4,723.4	4,720.2	(3)	0

CALIFORNIA GOVERNOR'S OFFICE OF EMERGENCY SERVICES

The principal objective of the Office of Emergency Services (OES) is to reduce vulnerability to hazards and crimes through emergency management, homeland security, and criminal justice to ensure a safe and resilient California. The OES responds to and coordinates emergency activities to save lives and reduce property loss during disasters and facilitates/coordinates recovery from the effects of disasters. On a day-to-day basis, the OES provides leadership, assistance, training, and support to state and local agencies and coordinates with federal agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid whereby a jurisdiction relies first on its own resources, and then requests assistance from its neighbors. The OES's plans and programs are coordinated with those of the federal government, other states, private sector, utilities, and state and local agencies within California.

During an emergency, the OES functions as the Governor's immediate staff to provide guidance and coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the OES is responsible for the development and coordination of a comprehensive state strategy related to all hazards, including terrorism prevention, preparedness, response and recovery.

Further, the OES improves the criminal justice system in California by providing financial and technical assistance to local governments, state agencies, and the private sector for homeland security, public safety, and victim services.

The Governor's 2014-15 Budget proposes funding of \$1.4 billion (\$103.4 million General Fund) for OES operations in 2014-15, a decrease of 1.0 percent from the 2013-14 Budget Act.

The Governor's proposal also includes authority for 950.9 positions, an increase of 4.0 percent from the 2013-14 level.

OES					
Fund Source (000s)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$104,866	\$103,341	\$103,357	\$16	0%
Other Funds	460,524	1,328,905	1,317,260	(11,645)	(1)
Total Expenditure	\$565,390	\$1,432,246	\$1,420,617	-\$11,629	(1%)
Positions	473.1	912.1	950.9	39	4

Major Provisions

Victim Identification Notification Everyday

The Governor's proposal includes \$1.8 million (Victim's-Witness Assistance Fund) in support of the Victim Identification Notification Everyday (VINE) network. The California State VINE is a free and anonymous telephone service that provides victims of crime two important features: information and notification.

Currently, VINE is available in 17 California counties as an individual county-wide program. The 17 counties include Alameda County, Butte County, El Dorado County, Humboldt County, Napa County, Santa Cruz County, Solano County, Fresno County, Imperial County, Kings County, Los Angeles County, Mendocino County, Orange County, Sacramento County, San Bernardino County, Santa Clara County, and Sutter County. The California State Victim Notification service includes all other California counties under a single toll free number and online system.

The information is stored at the VINE Communications Center in Louisville, KY. Information is available to callers 24 hours a day, 365 days a year. The California VINE service is available in English and Spanish and is supported by 24-hour, trained, operator assistance.

Other Key Provisions

- **Temporary Help and Position Establishment** - The Governor's Budget includes a no-cost proposal to increase OES' position authority by 42.0 positions (17.3 temporary and 25.0 permanent). This change is consistent with the State Personnel Board's June 20, 2013 approval of the transfer of resources necessary to permanently shift Public Safety Communications (PSC) to the OES. PSC serves the State of California by providing public safety communications to the State's first responders and oversight of the 9-1-1 system to the People of California. The PSC is dedicated to the preservation and protection of human life and public safety by delivering reliable and dependable communication services keeping the public connected during times of crisis.

Office of Emergency Services Infrastructure

The OES' infrastructure includes a headquarters facility and Inland Region Coordination Center located in Sacramento County, which provides the statewide central point of control during an emergency response. In addition, OES operates a leased administrative office building near the headquarters facility; a Coastal Region coordination center in Walnut Creek, Contra Costa County; a Southern Region coordination center located at Los Alamitos Air Field in Orange County; the California Specialized Training Institute at Camp San Luis Obispo; and various small field offices throughout the state.

The Public Safety Communications Office (PSCO) is comprised of a main leased complex in Sacramento and 45 field locations throughout the state. These locations include 9 area offices and 36 area shops, positioned geographically to facilitate maintenance and installation services to remote communication sites and customers throughout the state. In addition, the PSCO owns ten communications vaults/towers and maintains and operates a total of more than 3,500 radio frequency points of presence.

- **Relocation of Red Mountain Communications Site, Del Norte County** - The Governor's Budget proposes \$2.7 million (General Fund) to relocate critical public safety communications equipment and operations currently housed at Red Mountain to three new communications sites.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol's (CHP's) mission is to ensure the safe, convenient, and efficient transportation of people and goods across the state's highway system and to provide the highest level of safety and security to the facilities and employees of the State of California.

The Governor's 2014-15 Budget proposes funding of \$1.9 billion (\$0 General Fund) for CHP operations in 2014-15, an increase of 2.0 percent above the 2013-14 Budget Act.

The Governor's proposal also includes authority for 11,050.7 positions, a decrease of less than one percent from the 2013-14 level.

Fund Source (000s)	CHP				
	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Motor Vehicle Account, State Transportation Fund	1,703,526	1,845,033	1,852,843	\$7,810	0
Other Funds	102,505	57,454	84,355	26,901	47
Total Expenditure	\$1,806,031	\$1,902,487	\$1,937,198	\$34,711	2%
Positions	10,807.5	11,051.5	11,050.7	(0.8)	0

Major Provisions

Air Fleet Replacement

The Governor's Budget includes \$16 million (Motor Vehicle Account) for the replacement of 4 aircraft (2 helicopters and 2 airplanes), representing the second year of a long-term replacement plan to modernize its aging air fleet.

Radio Console Replacement Project

The Governor's Budget includes \$4.9 million (Motor Vehicle Account) one-time funding for a pilot program to replace old dispatch radio consoles which are incompatible with current radio technology. The pilot will replace 12 dispatch radio consoles at two CHP communication centers.

Radio/Microwave Program Funding

The Governor's Budget includes \$5 million (Motor Vehicle Account) one-time funding to support escalating costs associated with the California Highway Patrol Enhanced Radio System (CHPRS). Specifically, this funding is necessary for: increased equipment inventory, increased equipment complexity, customizing for geography, on-going modifications, on-going capital outlay. Based on departmental estimates, this project was under-funded by roughly \$12 million. CHP was able to absorb \$6.9 million of this shortfall in 2012-13 and anticipates an ability to absorb \$7 million in 2014-15, leaving a remaining shortfall of \$5 million.

It is unclear how the CHP is able to absorb such a significant cost or if the department's budget is sufficient to continue absorbing ongoing costs. Either way, it may be more appropriate to clearly earmark the available funding for this specific purpose.

Other Key Provisions

Reimbursement Authority Augmentation - The Governor's Budget includes a \$3.3 million (Reimbursement authority) increase to allow the CHP to receive payment for reimbursable activities performed on behalf of other state entities. This proposal simply restores authority that was taken in the building of the current year's (2013-14) budget.

Integrated Database Management Systems Funding - The Governor's Budget includes \$894,000 (Motor Vehicle Account) to support increased costs billed by the California Technology Agency related to the CHP's use of Integrated Database Management Systems.

California Highway Patrol Infrastructure

The California Highway Patrol utilizes over 500 facilities of varying types statewide, which include eight field division offices, 103 area commands, 26 dispatch/communications centers, 54 vehicle inspection/scale facilities, 8 air operations facilities, 34 resident posts, 271 telecommunication sites, a training academy and various administrative facilities. These facilities, consisting of approximately 1.4 million square feet of state-owned properties and 600,000 square feet of leased properties, support the Department's mission to provide the highest level of safety, service, and security to the people of California.

Statewide Advance Planning and Site Selection - The Governor's Budget proposes \$1.7 million for Advance Planning and Site Selection in order to continue addressing the significant number of offices that are in need of replacement by allowing the Department to seek out parcels concurrent with the development of budget packages.

CALIFORNIA MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: 1) mission ready forces to the federal government as directed by the President; 2) emergency public safety support to civil authorities as directed by the Governor; and, 3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. Military Department Youth Programs serve California communities and families by delivering national level, high-quality educational support programs, in partnership with the educational community, within a military, academic-structured environment.

The Governor's 2014-15 Budget proposes funding of \$148.9 million (\$44.9 million General Fund) for Military Department operations in 2014-15, an decrease of 3 percent from the 2013-14 Budget Act.

The Governor's proposal also includes authority for 819.7 positions, an increase of one percent above the 2013-14 level.

Fund Source (000s)	Military				
	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$43,569	\$44,623	\$44,885	\$262	1%
Other Funds	107,708	108,306	104,059	(4,247)	(4)
Total Expenditure	\$151,277	\$152,929	\$148,944	(\$3,985)	(3%)
Positions	795.2	812.7	819.7	7.0	1

Major Provisions

- **State Active Duty Employee Compensation** - The Governor's budget includes \$615,000 (\$256,000 General Fund \$359,000 Federal Funds) to support state active duty personnel cost increases. In accordance with Sections 320 and 321 of the Military and Veterans code, pay for state active duty personnel must be aligned with federal military pay scales granted by Congress.
- **Environmental Programs to Meet Federal Requirements** - The Governor's budget includes 7.0 state civil service positions and \$519,000 (Federal Funds) to support workload associated with ensuring compliance with state and federal environmental protection laws and regulations.

- **Positions for Force Protection** - The Governor's budget includes 63.0 positions and \$3.5 million (Federal Funds) to provide security for eight California sites designated by the Department of the Army and the Federal National Guard as Mission Essential Vulnerability Areas. The National Guard Bureau has validated and agreed to provide funding for the requested security staffing.

The designated sites are: Joint Forces Headquarters – Sacramento, Mather Aviation Support Facility – Mather, Stockton Aviation Support Facility – Stockton, Fresno Aviation Support Facility – Fresno, Theater Aviation Sustainment Group – Fresno, Camp Roberts – Bradley, Camp San Luis Obispo - San Luis Obispo, and Joint Forces Training Base – Los Alamitos.

- **Military Museum Appropriation** - The Governor's budget includes \$100,000 (General Fund) to support operation of the California State Military Museum and Resource Center and trailer bill language to codify this appropriation. The current \$100,000 appropriation is provided as an annual non-budget act appropriation. This change will allow this funding to be better accounted for by including it in the annual budget process.



TRANSPORTATION

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways
- Serves as the point of contact and fiscal agent for most federal transportation funds
- Allocates state funding, including bond funds
- Programs a portion of state funding for state run-projects
- Owns the High-Speed Rail Authority and is responsible for constructing, operating, and maintaining the system
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities

As the Budget Committee considers transportation policy this year, it helps to be mindful of our central role in the intergovernmental partnerships necessary to tackle the host of challenges faced by our transportation network

The Future of Transportation Funding Needs

On October 27, 2011, the California Transportation Commission issued the 2011 Statewide Transportation Needs Assessment. This document paints a picture of State transportation funding needs over the next decade. The report concluded that California would need \$538.1 billion, excluding the development of the High-Speed Rail project, but that existing funding sources would provide \$242.4 billion or 45 percent of the need over the same period. The chart on the following page illustrates the needs.

Cost: (\$ billions)	Maintenance	System Expansion and Preservation	Total
Highways	\$ 79.7	\$86.3	\$165.9
Local Roads	102.9	26.5	129.3
Public Transit	142.4	32.2	174.5
Inter-City Rail	0.2	6.2	6.4
Freight Rail	0.1	22.3	22.4
Seaports	4.6	7.5	12.1
Airports	10.4	5.5	15.9
Land Ports	1	0	1
Intermodal Facilities	0	5.9	5.9
Bike/Pedestrian	0	4.5	4.5
Total	\$341.1	\$197	\$538.1

The Needs Assessment provides a good picture of the State's policy changes involving transportation as it illustrates that a profound funding gap exists to continue the existing policy direction. However, this report may exaggerate this gap because it was not conducted with a uniform methodology or standard, to defining the "needs" i.e. what are the needs to achieve a level of traffic congestion. Therefore, it may be more of a "wants" assessment rather than a "needs" assessment. Further discussion and analysis should help further refine our needs.

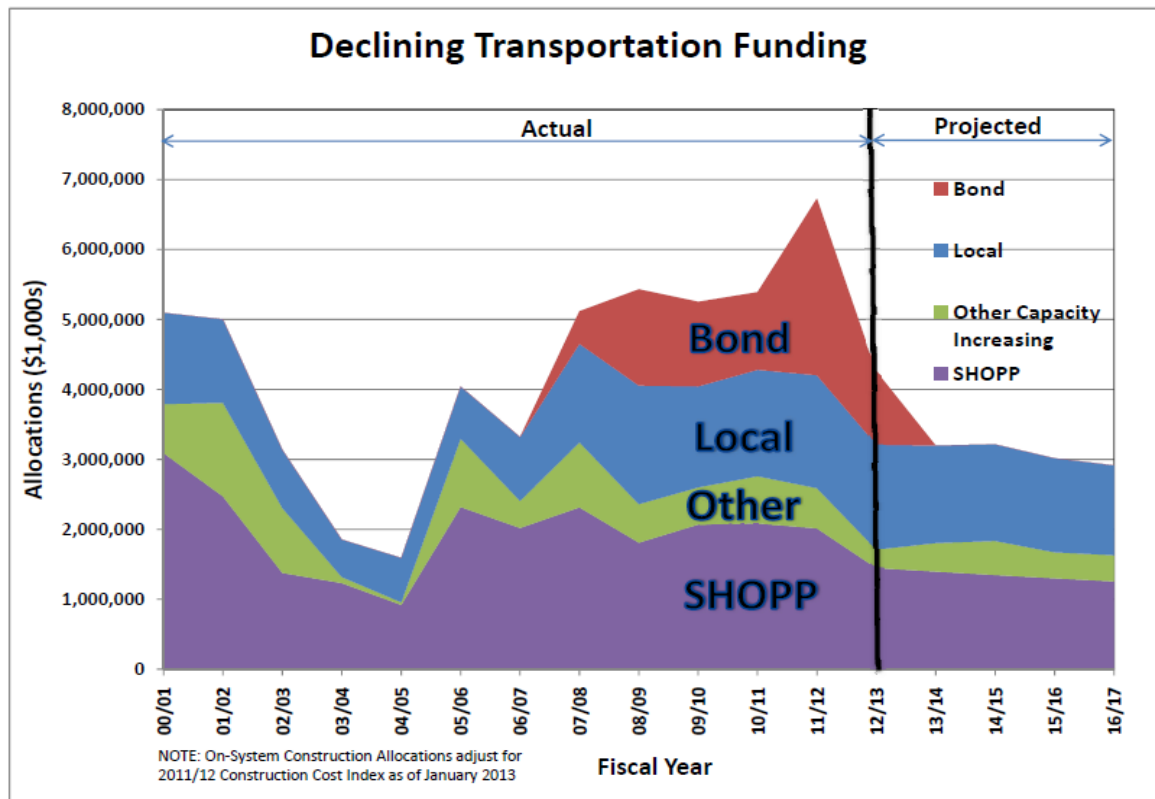
It is very likely a more refined list of "must have" transportation projects exceed the available resources, especially if the needs of the High Speed Rail project are considered. Therefore, the Assembly needs to consider how to address this funding imbalance. One possible approach is to consider strategies to reduce the overall expected costs. The Legislative Analyst Office (LAO) has suggested that the State adopt two strategies as part of its transportation planning efforts that reduce costs. First, increase investment in preventative maintenance, which helps extend the useful life of the existing infrastructure. Second, collect and analyze data to fine tune expansion efforts, the LAO believes that additional data could help identify smaller and more targeted expansion to relieving congestion than our current methodology. Such analysis would allow the State to get more benefit from existing limited funding.

Funding for Transportation and the Five Year Infrastructure Plan.

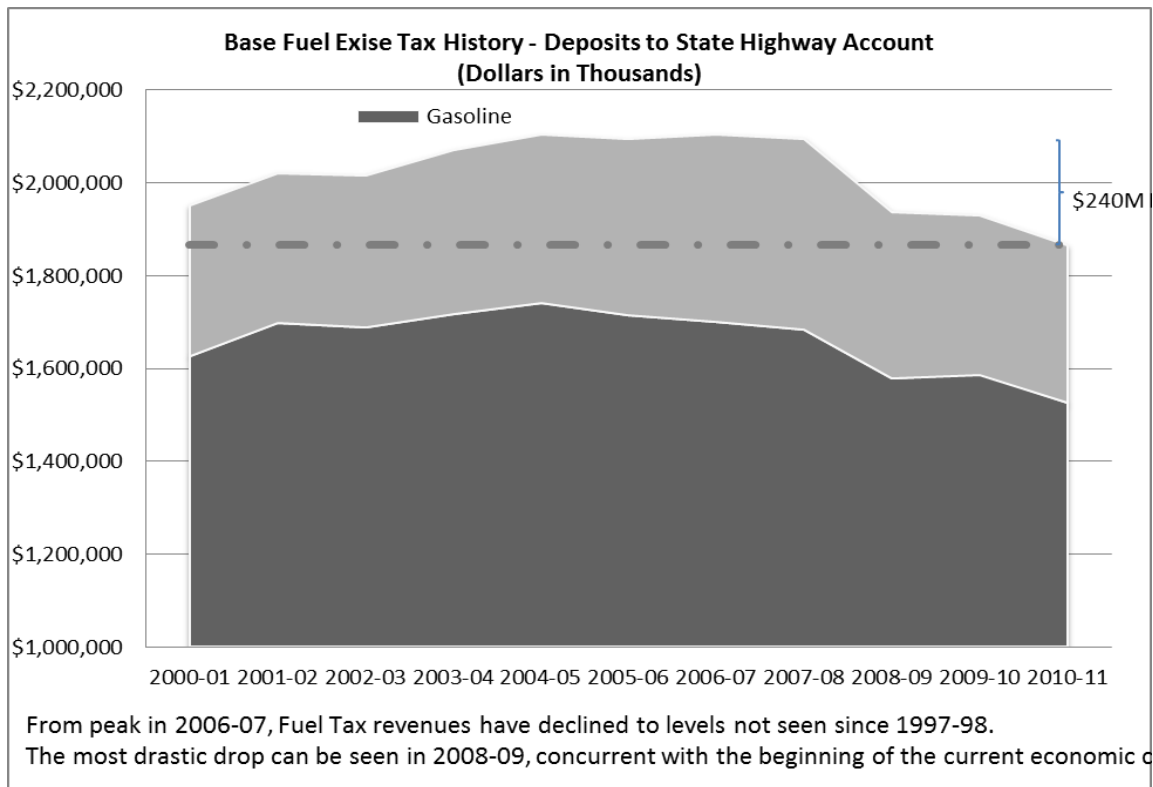
The Administration issued its first Five Year Infrastructure plan since 2008 with the 2014-15 budget. The plan projects that after the appropriation of the remaining balance of Proposition 1B bond funds, that transportation funding drops by almost \$1 billion and remains permanently at that level. Thus, according to this plan, the State will spend 14 percent less on transportation projects than the current level, despite the fact that the population of the State is expected to grow by 7 percent to over 40 million residents in the same time period. The chart on the following page displays the data from the Infrastructure plan:

Transportation	2014-15	2015-16	2016-17	2017-18	2018-19
Caltrans	\$ 6,209.0	\$ 5,256.0	\$ 5,344.0	\$ 5,304.0	\$ 5,312.0
High Speed Rail	250.0	25,331.0	-	-	-
CHP	1.7	28.7	39.2	164.2	164.2
DMV	-	-	13.7	-	-
Total	\$ 6,460.7	\$ 30,615.7	\$ 5,396.9	\$ 5,468.2	\$ 5,476.2

The issuance of Proposition 1B in 2006 allowed overall transportation funding to remain at 2001 levels for several years. In addition, local governments have undertaken a greater share of the cost burden for transportation projects. The graph below, provided by Caltrans, illustrates this trend:



In addition, the State's base gas tax revenue has eroded over time. As gasoline consumption has declined the revenue generated by the base amount declined by over \$240 million per year since 2007. As motorists purchase more efficient vehicles and the automobile industry begins producing cars that use electricity and other sources of power in lieu of gasoline, this trend will continue.



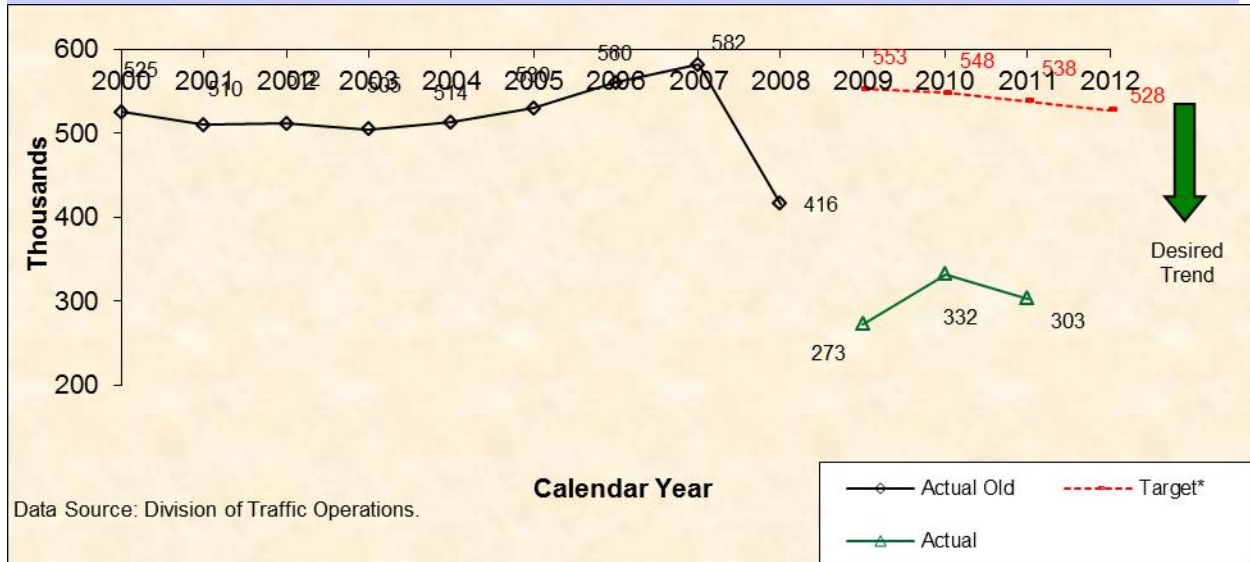
Mirage of Progress

Over the last five years, Californians have enjoyed historically low levels of traffic congestion—due in a large part to the dramatic rise in the price of gasoline, and the dramatic reduction in economic activity due to the Great Recession. This trend is reflected in the chart below, as measured by Caltrans in their performance measures:

Caltrans Objective 2.1 –

By 2012, reduce daily vehicle hours of delay by 30,000 hours throughout the transportation system.

PM 2.1a Statewide daily vehicle hours of delay



What happens to traffic congestion when the recovery fully occurs? Will California return to the ugly congestion levels? Continued oversight by the Assembly will be required to make sure that any problems are detected early.

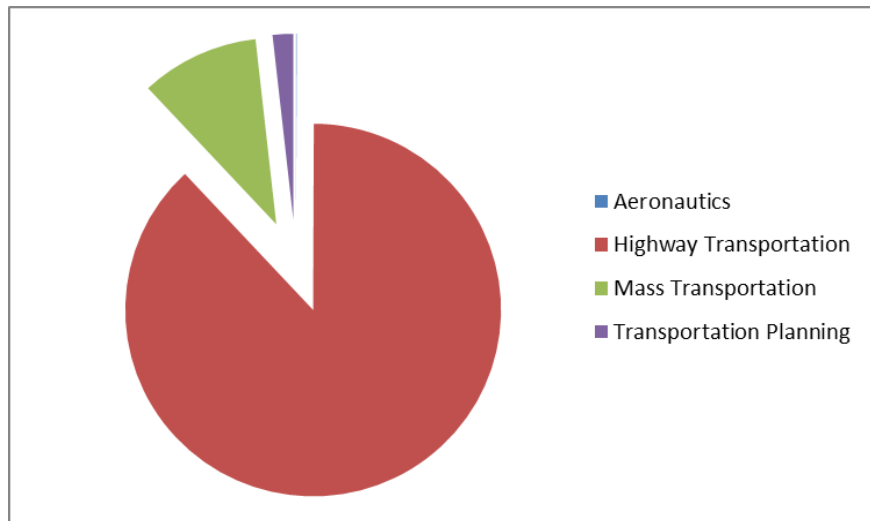
STATE DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's Budget proposes \$10.8 billion, including \$83 million from the General Fund. This is a decrease of \$1.8 billion, reflecting reductions of available State Highway Account Funding, Federal Funds, and bond funds in the enacted 2013-14 Budget.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
	\$83,416	\$81,362	\$83,012	\$1,650	2.0%
General Fund					
State Highway Account	2,959,628	3,433,473	3,208,646	(224,827)	(6.5)
Public Transportation Account	202,412	275,500	261,883	(13,617)	(4.9)
Other Special Funds	111,703	132,479	56,968	(75,511)	(57.0)
Federal Funds	3,593,008	4,892,794	4,781,150	(111,644)	(2.3)
Reimbursements	1,470,923	1,582,177	1,594,163	11,986	0.8
Cap and Trade Funds	-	0	50,000	50,000	100.0
Prop 1A HSR Bond Funds	266,246	380,814	77,910	(302,904)	(79.5)
Prop 1B Bond Funds	3,014,685	1,951,923	744,603	(\$1,207,320)	(61.9)
Total Expenditure	\$11,702,021	\$12,730,522	\$10,858,335	(\$1,872,187)	(14.7%)
Positions	20,095.3	19,803.5	19,773.5	(30)	(0.2)

The bulk of Caltrans funding is spent on highways, with 16,536 positions dedicated to this function. The chart below illustrates Caltrans funding by program:



Major Provisions**Farewell, Prop 1B Bond Funding**

The 2014-15 budget proposes to appropriate the remaining balances of bond funds from Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This bond was approved on November 7, 2006, and the transportation component of an infrastructure package of four separate infrastructure bonds that provided funding for roads, schools, housing, and flood control projects. Proposition 1B dedicated \$19.925 billion over a ten year period to fund State Transportation Improvement Program (STIP) and State Highway Operation and Protection Programs (SHOPP) projects, corridor improvement projects, congestion relief upgrades, public transit expansion, reduction of air pollution and enhancement of anti-terrorism security at ports.

The budget includes \$963.5 million of bond appropriation for nine programs. These include the allocation of funding for five programs that have prior year savings that can be utilized and all of the remaining funding for the State Transit Assistance program.

In addition, the Governor's budget includes a request for \$6.9 million and 45 positions to administer the expected work from the bond funds authorized above. This request contains 12 fewer positions than last year's administrative staffing levels, reflecting a ramp-down of the Proposition 1B funded projects.

The proposed funding and staffing for Proposition 1B seems consistent with requests from previous years. However, this year is remarkable because it is the last year that such funds will be available for appropriation.

\$337 million in "New" Infrastructure, from Early Debt Repayment

The Governor's budget references \$815 million in new Infrastructure expenditures across several program areas. The largest piece of this package is \$337 million in transportation funding. This funding is available due to an early repayment of a \$328 million loan of special Highway Users Tax Account funds (plus interest of \$9 million) to the General Fund that was part of the 2010 Budget Act.

Caltrans intends to use this funding in the following manner:

- \$100 million for City and County projects
- \$110 million for SHOPP Capital Payment Projects
- \$100 million for SHOPP Traffic Management System
- \$27 million for Highway Maintenance.

This proposal also includes a request of \$1.7 million and 12 limited-term positions to develop Project Implementation Documents for these new projects.

In addition to the \$337 million identified above, the budget also proposes to repay \$12.1 million in other special fund loans made to the General Fund from the Bicycle Transportation Account, the Pedestrian Safety Account, and the Environmental Enhancement Program Fund. This

repayment will provide an additional \$7.7 million in funds for the Active Transportation Program as well as \$4.4 million for the Environmental Mitigation Program Fund.

Capital Outlay Support Staffing

The Governor's budget includes a reference to zero-based budgeting for the Capital Outlay Support program. The program, the largest at Caltrans, has been at issue for several years after an analysis performed by the Legislative Analyst Office suggested the overall staffing level could not be justified by the workload. Since that time, Capital Outlay Support staffing has been reduced by hundreds of positions.

The Legislature adopted Supplemental Report Language as part of the 2013-14 budget package that directed Caltrans and the Department of Finance to work with the Legislative Analyst's Office on an analysis of the Capital Outlay Support staffing needs. The Administration intends to submit the results of this analysis in a Spring Fiscal Letter later this year. The Governor's January Budget submission includes an evaluation document that will be used as part of this evaluation.

Cap and Trade funding for Rail Modernization

As part of the Governor's Cap and Trade proposal, which is contained in the Governor's Budget, Caltrans is requesting \$50 million in funding for Rail Modernization projects that reduce Greenhouse gas emissions. The proposed funding would create a new Rail Modernization Grant program which would fund both traditional capital outlay projects to facilitate additional rail interconnectivity and also operational efforts to improve connectivity, such as fair and payment system integration. The budget proposes \$419,000 and four positions to administer this new grant program.

This program would clearly interact with the High Speed Rail project, which also requested Cap and Trade funding in the Governor's budget.

In addition to the new proposal, the budget proposes \$421,000 and 4 limited-term positions to continue the administration of federal stimulus funds for intercity rail improvement. The Department will also likely request an adjustment to the budget for intercity rail operations later in the budget process. This request will reflect the anticipated costs for Amtrak services, which the Administration is currently negotiating with the federal government.

Aeronautics Program

Caltrans's Aeronautics program issues permits for commercial service airports, general aviation airports, and heliports. The program leverages approximately \$4 million of state funds to gain \$275 million of federal funding.

The budget includes a proposal to change Caltrans' Aeronautics program in several ways. For 2014-15, the budget proposes a \$4 million one-time transfer of funding from the Local Airport Loan Account to Aeronautics program to be used for \$1 million for 55 Airport Improvement Grants and \$3 million for 18 Acquisition and Development grants for general aviation airports.

The budget also proposes trailer bill language to allow the administration to make future transfers from the Local Airport Loan Account to the Aeronautics program, subject to approval by the California Transportation Commission.

In addition to this proposal, the Department of Finance evaluated the Aeronautics program with a Zero Based Budgeting methodology. The result of that review validated the existing 26 positions that staff this program.

Other Key Provisions

- **Devil's Slide Tunnels staffing.** The Budget proposes \$1.6 million and 18 positions to comply with federal and state fire protection regulations for the operation of the Devils Slide Tunnels. To comply with these regulations, Caltrans must provide 24/7 monitoring of these tunnels and coordinate real time emergency response efforts.
- **I-15 Express Lane Operations.** The Budget proposes an increase of \$778,000 and 10 positions to operate the 20 mile Interstate 15 Express Lane. The express lane consists of 16 miles of moveable concrete median barriers to accommodate peak directional traffic demand. The requested staff will perform maintenance on this highway corridor, including repair and replacement needed on the moveable barrier and responding to roadway emergencies.
- **Americans with Disabilities Act (ADA) Infrastructure Program.** The Budget proposes \$507,416 and 3 positions to implement the 2010 ADA Infrastructure Plan. This plan is the result of a Caltrans settlement with various opposing parties that agreed to allocate \$1.1 billion for ADA specific projects over a thirty year period. In addition, \$1 million is requested to continue consulting contracts to respond to grievances and conduct ADA investigations.
- **Job Access and Reverse Commute/New Freedom Projects.** Caltrans requests \$301,000 and 3 positions to continue to monitor projects that are subject to Federal Transit Administration regulation. Currently the State has 175 projects that were part of federal programs, the Job Access Reverse Commute (JARC) and New Freedom Project. While funding for these programs was consolidated when federal transportation funds were reauthorized, MAP 21 (Moving Ahead for Progress in the 21st Century), the federal requirements for these program continue to remain.
- **High Speed Rail Legal Services.** The budget reflects Caltrans role in providing legal services to the High Speed Rail Authority. The budget requests \$3.1 million of State Highway Account funds and 8 limited-term positions to continue these legal services.

STATE TRANSIT ASSISTANCE

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to regional transportation planning agencies for mass transportation programs. Funding for the State Transit Assistance is allocated by statute and administered by the State Controller.

In 2014-15 the Governor's Budget increases the STA to reflect the appropriation of the remaining balance of 2006 Proposition 1B bond funds to the STA program.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
	417,495	389,752	373,091	(16,661)	(4.3)
State Transportation Fund	752,893	298,988	823,949	524,961	175.6
Prop 1B Bond Funds	\$1,170,388	\$688,740	\$1,197,040	\$508,300	73.8%
Total Expenditure					
Positions	0	0	0	0	0.0

CALIFORNIA HIGH-SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California. The High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim (Phase I), with extensions to San Diego and Sacramento and points in-between (Phase II).

Proposition 1A, enacted in November 2008, authorizes \$9 billion in bond proceeds for the rail lines and equipment, and an additional \$950 million for state and local feeder lines. The federal government has also awarded the Authority nearly \$3.5 billion, most of which has been designated to fund portions of the project in the Central Valley.

To Palmdale!

The Governor's budget begins an ambitious plan to secure funding for the next construction segment of the project. The budget includes \$250 million of Cap and Trade funding and forthcoming trailer bill language that would dedicate a portion of cap and trade to allow for construction along this segment to begin.

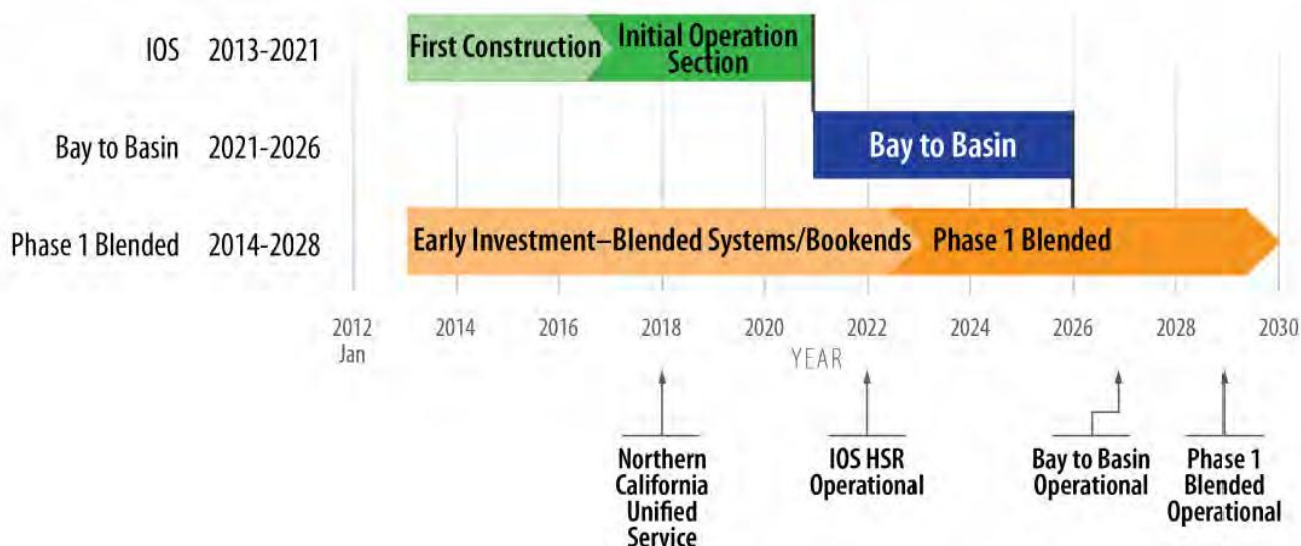
April 2012 Revised Business Plan

On April 2, 2012, the High-Speed Rail Authority issued a Revised Business Plan that articulated the current project approach for the High-Speed Rail system. The report estimated that it would take until 2028 and cost approximately \$68 billion to allow for a one-seat High-Speed Rail ride from San Francisco to Los Angeles.

The map below, prepared by HSRA, illustrates the funding for Initial Operating Segment and Blended early investments, proposed in the budget. The final Phase 1 Blended route would link San Francisco to Los Angeles.



The chart below, prepared by the Authority, provides an overview of the construction timeline:



The Business Plan identifies three phases for the project:

1. **Initial Operating Segment**— 300-mile segment from Merced to the San Fernando Valley. The plan envisions that High-Speed Rail Service begins on this segment in 2022 and that it would include connections with regional/local rail for blended operations, so riders could transfer to other rail systems. The business plan also identifies closing the rail gap between the Bakersfield and LA Basin as a priority for this phase. The Authority reports that it will accelerate environmental review work on that gap.
2. **Bay to Basin**— 410 miles of High-Speed Rail service from the San Jose to the San Fernando Valley, expected to beginning in 2026.
3. **Phase 1 Blended**— 520 miles of service that allows a one-seat ride from San Francisco's Transbay Terminal to downtown Los Angeles that would begin in 2028. While this is the last Phase of the project to be completed, the revised business plan begins making investments in "blended" activities in the near term, as these investments result in immediate benefits for users of existing regional and commuter rail systems.

The Business plan also mentions Phase 2 of the project, which would provide 800 miles of services that would include San Diego and Sacramento, as well as linking to several existing rail systems this would occur after Phase 1 is completed.

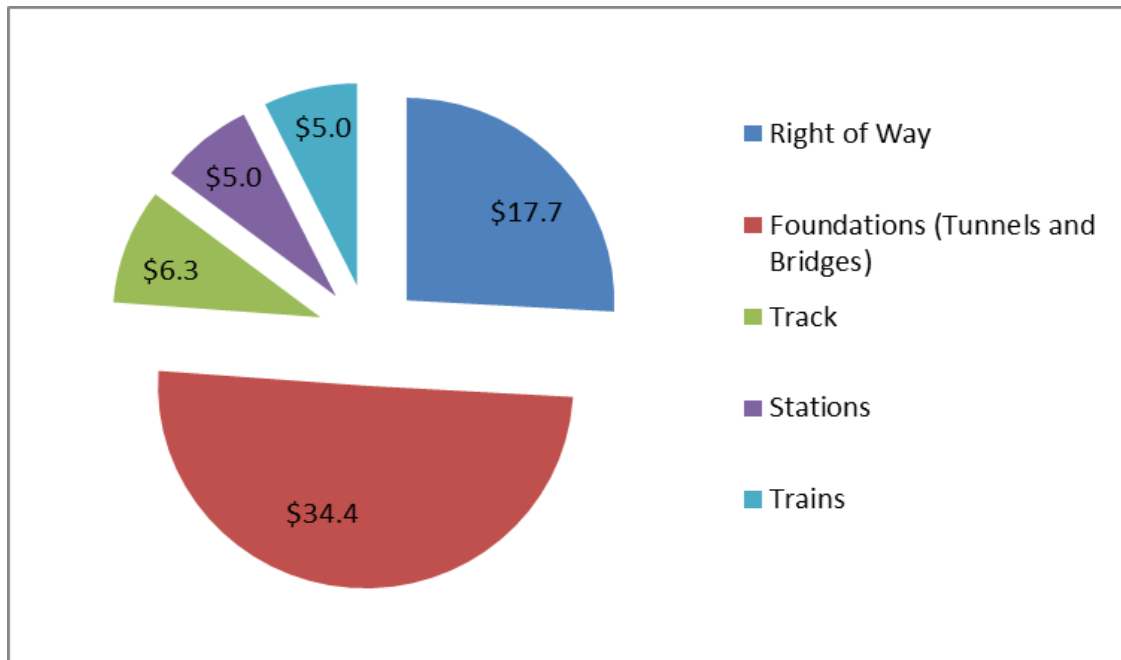
The Revised Business Plan reflects the "Blended Approach" or final build out, which means that High-Speed Rail will use existing regional and commuter rail lines in urban and metropolitan areas for service, rather than building dedicated rail lines. This significantly reduces the costs of the project and shortens the project completion time. The project also invests High Speed Rail bond funding into improvements to the "bookends", existing rail in the Bay Area and Los Angeles, which allows existing rail users to see the benefits of High-Speed Rail investment in the near future.

The total construction costs for the system are expected to be \$53.4 billion. When adjusted for inflation, this amount would be \$68.4 billion at the time of projected expenditure.

Over 75 Percent of the Cost of the Project is Creating 520 Mile-Long Right of Way

In August 2013, Elon Musk, the CEO of Tesla Motors released a position paper that suggested that the State should build a "Hyperloop" System in lieu of a High Speed Rail system. This document compared the costs of the two systems and assumed that it would only cost \$1 billion to obtain the necessary land for the system. Within days of release, the Musk paper was refuted by transportation experts because, in fact land acquisition and improvement represents the **most significant project cost**.

In the case of High Speed Rail, there is no viable existing right-of-way to use to connect the major population centers of Northern and Southern California by rail. Thus, the bulk of the High Speed Rail projects costs and construction efforts are focused on building this fundamental linkage. In fact, if the State currently owned a suitable right of way, the total costs for the High Speed Rail track, stations, and trains would only be \$16.3 billion.



One of the major cost drivers for the project is to create a connection between the Los Angeles Basin and the San Joaquin Valley for rail. This segment of the project will require extensive use of tunnels and other engineering to allow for passage through the Tehachapi Mountains.

It is important to remember that once the State secures the Right of Way, it will retain ownership of this asset forever. In addition to serving as a route to the High Speed Rail, it will be possible to use this right of way for other uses, such as communication lines or power transmission. Ultimately if Tesla Motors and Space X are able to master the Hyperloop commercially, this Right of Way would be the natural location for this future mode of transportation.

The 2012 Budget Act appropriated approximately \$8 billion for the high-speed rail project for the following purposes:

- \$5.8 billion for the first phase of the Initial Operating Section from Madera to Bakersfield.
- \$1.1 billion for early improvement “bookend” projects to upgrade existing rail lines in Northern and Southern California, which will lay the foundation for future high-speed rail service as it expands into these areas.
- \$819.3 million for connectivity projects to enhance local transit and intercity rail systems that will ultimately link to the future high-speed rail system.

Palmdale-Bakersfield

The April 2012 plan identified the Palmdale to Bakersfield segment as an early priority, but provided no funding. Currently there is no direct rail service between the LA Basin and Bakersfield. This segment poses some of the greatest engineering challenges to the project, as it will require the building of right-of-way through the Tehachapi Mountains. Once this segment is built, it will provide connectivity to allow riders to take various train services between Northern and Southern California, although the system would not be a single-seat High Speed ride until the entire system is built out.

Total costs for this segment is expected to be between \$10-\$14 billion. The Authority is hoping to use the roughly \$4 billion in available unappropriated Proposition 1A funds, federal funds, and Cap and Trade revenue to begin the construction of this segment.

Updated Business Plan Expected

The High Speed Rail Authority is required to issue an update to the Business Plan by May 1, 2014. To meet this deadline, the Authority will likely issue a draft of this document sometime in February.

New Financial Plan Ordered by Courts

The High Speed Rail Authority has been unable to expend Proposition 1A bond funding due to a court challenge in two cases: *John Tos; Aaron Fukuda and County of Kings v. California High Speed Rail Authority* and *High-Speed Rail v. All Persons Interested*. The Courts have ordered High Speed Rail Authority to stop the expenditure of bond funding for construction and have required the High Speed Rail Authority to issue a new financing plan.

The Governor's budget, and the High Speed Rail Authority assume that the State ultimately prevails in both court cases and that the State can move forward with the plan to expend Proposition 1A Bond Funding.

2014-15 Budget Proposal

The Proposed Budget for High Speed Rail reflects an additional \$32 million of federal funding for improvements to Southern California rail.

Fund Source	2012-13 Actual	2013-14 Estimated	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
Federal Trust Funds	0	0	32,000	32,000	0
Prop 1A Bond Funds	17,741	26,351	29,316	2,965	11.3
Total Expenditure	\$17,741	\$26,351	\$61,316	\$34,965	132.7%
Positions	55.7	150.7	177	26.3	17.5

Major Provisions

\$250 million of Cap and Trade Funding for High Speed Rail Construction

As referenced previously in this section, the budget includes a \$250 million allocation of Proposition 1A bond funds to begin construction of the Bakesfield-Palmdale segment. In addition, the Administration intends to release a trailer bill in February that will articulate the intent to dedicate future Cap and Trade funds for future construction.

Southern California Improvements

The Governor's Budget includes \$32 million of American Recovery and Reinvestment Act funds for Southern California passenger rail investments that would provide connectivity to high-speed rail service. The proposed funding would generate a local match of an additional \$48 million. This proposal is consistent with the Book-End investment contained in the April 2012 Revised High Speed Rail Business Plan.

Public Transportation Account Loan

The Governor's Budget proposes a \$29.3 million loan of Public Transportation Account Funding to High Speed Rail for State Operations. The intent of this funding is to cover the Authority's operations while Proposition 1A Bond Funds are frozen by the courts. According to the Administration, this loan will not impact the state or local transit agencies and the Public Transportation Account will have a projected remaining balance of \$305.2 million after the loan to the Authority.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Department is currently reviewing its methods of providing services to the public and developing alternatives to visiting the field offices.

The Governor's Budget proposes \$1.1 billion, (Special Funds), an increase of \$47.4 million from the revised current year budget. The budget also includes an increase of 817 positions, mostly due to projected workload increases associated with AB 60 (Alejo) Chapter 524, Statutes of 2013, which allows undocumented immigrants to obtain California Driver's licenses.

Fund Source	2012-13 Actual	2013-14 Estimated	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	\$0	0%
State Highway Account, State Transportation Fund	49,036	9,159	8,545	(614)	(6.7)
Motor Vehicle Account, State Transportation Fund	831,208	978,360	1,027,450	49,090	5.0
Other Special Funds	21,708	22,828	22,842	14	0.1
Federal Trust Fund	739	5,129	4,063	(1,066)	(20.8)
Reimbursements	12,674	14,408	14,408	0	0.0
Total Expenditure	\$915,365	\$1,029,884	\$1,077,308	\$47,424	4.6%
Positions	8,241.2	8,212.8	9,030.3	817.5	0.1

Major Provision

Implementation of AB 60

The Governor's Budget includes a BCP to outline the DMV's plan to implement AB 60 (Alejo), Chapter 524 of 2013, which permits persons of driving age, who are unable to submit proof of legal presence in the United States and are ineligible for a Social Security Number the privilege of applying for and being issued a driver's license.

In 2015-16 Applications for Driver's Licenses Expected to increase by 86 percent above current levels.

DMV projects 1.4 million additional applications for driver's licenses when AB 60 takes effect on January 1, 2015. The Department projects that about 38 percent of these new applications will take place in the second half of the fiscal year. The additional 1.4 million licenses are projected to be issued over three years.

- 2014-15 = 538,947
- 2015-16 = 709,141
- 2016-17 = 170,194

The numbers above would be the peak one-time demand for driver's licenses that would occur in addition to the reoccurring service levels. In 2012-13, the DMV issued 819,401 driver's licenses

DMV proposes 17 percent additional staffing to implement AB 60

The Governor's budget includes a proposal for 822 positions and \$67.4 million to implement AB 60. This proposal represents a roughly 17 percent increase in staffing, most of which would be temporary to accommodate the one-time nature of the work. All of the funding for this proposal is from the Motor Vehicle Account, which is supported by fees charged to individuals applying for the license.

The chart below, provided by the DMV illustrates the how these positions are deployed by task.

Tasks associated with positions for AB 60

Tasks:	2014/15 Positions	2015/16 Positions	2016/17 Positions
Process payroll, personnel, benefit documents in Human Resource Branch.	9.0	9.0	3.0
Answer phone calls in the Telephone Service Center, process papers for document imaging preparation and review of documents.	18.0	23.0	4.0
Process Driver License applications in the field offices.	440.0	485.0	90.0
Written Test: Thumbprint, retrieve photo and do visual match, score test and update record.	200.0	140.0	42.0
Conduct drive tests.	104.0	68.0	55.0
Staffing for Temporary Offices.	47.0	63.0	0.0
Process accident reports and courtesy reminder responses, answering calls from field office lines, public contact calls, visual inspection and blue light inspection of each box of DL/ID cards.	4.0	13.0	4.0
Driver Safety Officers for increase in interviews, reexaminations, driver investigations, phone call, and hearings	-	4.0	4.0
Staff to process cases, review additional records, update databases, and follow-up/administrative functions.	-	6.0	6.0
Total:	822.0	811.0	215.0

Is DMV requesting enough positions?

Advocates have questioned whether the staffing levels associated with the implementation of AB 60 are sufficient to cover the demand. It is difficult to fully project when and where the demand for new licenses will occur and the overall customer service at DMV could suffer if sufficient resources are not provided.

DMV believes that the proposed staffing levels are sufficient given their proposal to use temporary DMV offices to supplement the current appointment-based system of applying for a license. The DMV intends to only accept walk-in applications for driver's licenses at temporary locations and use appointments only at permanent DMV offices.

The critical assumption made by the DMV is that only 38 percent of the projected new licenses will be issued in the first six months after the effective date of AB 60. However given the penalties associated with driving without a license, it could be argued that more motorists will seek a license immediately.

The Budget bill also includes provisional language to allow the administration to add resources to the DMV budget with Joint Legislative Budget Committee notification. It is also important to note that DMV has a good track record of recovering from operations disruptions. In late 2010 a problem with a vendor temporarily stopped driver licenses issuance for several months and DMV was able to eliminate the resulting backlog by the middle of 2011.

SECRETARY FOR TRANSPORTATION

The Transportation Agency develops and coordinates the policies and programs of the State's transportation entities to achieve the State's mobility, safety, and air quality objectives from its transportation system.

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 of 2012 created the Secretary for Transportation. The 2013-14 transportation responsibilities of the Secretary for Business, Transportation, and Housing are merging into this Secretary. The 2011-12 and 2012-13 budget information for transportation responsibilities is displayed in the Secretary for Business, Transportation, and Housing (Organization Code 0520). In addition, the Office of Traffic Safety is merging with this Secretary. The 2011-12 and 2012-13 budget information for the Office of Traffic Safety is displayed in Organization Code 2700 under the new Transportation Agency.

The 2014-15 Budget includes \$100.8 million and 58 positions for the Secretary for Transportation. Most of these resources (\$96.7 million and 32 positions) are associated with the Traffic Safety program activities that were previously performed by the Office of Traffic Safety. This funding has decreased from the current year level of \$123.2 million due a decrease in federal funding.

CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's Budget proposes \$28.6 million for the CTC; an increase of about \$125,000 from the current year level funding. CTC has a staff of 19 positions, unchanged from the prior year.

Major Provision

- **Implementation of the Active Transportation Program.** The CTC has proposed funding two existing Supervising Transportation Planning staff from the State Highway Account and the Public Transit Account from their current funding source, which is Proposition 1B Bond funds.

BOARD OF PILOT COMMISSIONERS

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun, licenses and regulates maritime pilots who guide vessels entering or leaving those bays and navigate on their tributaries to Sacramento and Stockton. Seven members of the Board are appointed by the Governor with the consent of the Senate, and the Secretary of the Business, Transportation, and Housing Agency is an ex officio member. All operational expenses of the Board are funded by a surcharge on pilotage fees set by the Board based on pilotage fees set by the Legislature. A pilot continuing education training program and a pilot trainee training program are funded by two separate surcharges on vessel movements set by the Board.

The Governor's Budget proposes \$2.2 million for the Board of Pilot Commissions; a decrease of \$62,000 from 2013-14. The Board has 4 positions, unchanged from the prior year.